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Before the Committee on Appropriations

Agriculture, Rural Development, and Related Agencies Appropriations

Fiscal Year 2007

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H.R. 5384

PART 3

DEPARTMENT OF AGRICULTURE
DEPARTMENT OF HEALTH AND HUMAN SERVICES
NONDEPARTMENTAL WITNESSES

Agriculture, Rural Development, and Related Agencies Appropriations, 2007
(H.R. 5384)—Part 3

**AGRICULTURE, RURAL DEVELOPMENT, AND RE-
LATED AGENCIES APPROPRIATIONS FOR FIS-
CAL YEAR 2007**

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

ON

H.R. 5384

AN ACT MAKING APPROPRIATIONS FOR AGRICULTURE, RURAL DEVEL-
OPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGEN-
CIES PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2007,
AND FOR OTHER PURPOSES

PART 3

**Department of Agriculture
Department of Health and Human Services
Nondepartmental Witnesses**

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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2007

THURSDAY, MARCH 9, 2006

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 8:34 a.m., in room SD-192, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.

Present: Senators Bennett, Bond, Burns, Craig, Kohl, and Dorgan.

DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY

STATEMENT OF HON. MIKE JOHANNNS, SECRETARY

ACCOMPANIED BY:

CHARLES CONNER, DEPUTY SECRETARY
KEITH COLLINS, CHIEF ECONOMIST
W. SCOTT STEELE, BUDGET OFFICER

OPENING STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. The subcommittee will come to order.

I will tell our witnesses and spectators, as well as senators, that the full committee has a meeting scheduled at 9:30 to hear Secretary Rumsfeld and Secretary Rice discuss the appropriations with respect to Katrina. So we will do our best to be finished with this hearing in time to go to the full committee for that hearing.

And we are grateful to Secretary Johannns for his willingness to appear at this hour in the morning. There are some senators who say it isn't even light yet at 8:30, and what are we doing convening this early? But we are grateful, Mr. Secretary, that you would meet our schedule with respect to that, and we welcome you before the subcommittee.

This is the Secretary's second appearance before the subcommittee, and we understand you celebrated your 1-year anniversary as the Secretary in January.

And with you, we welcome Mr. Conner, Dr. Collins, and Mr. Steele.

Before I speak about the specifics of USDA's budget request, I would like, Mr. Secretary, to take the opportunity to thank you and your Department for your efforts in the wake of Hurricane Katrina.

Secretary JOHANNES. Thank you.

Senator BENNETT. We have heard a great deal of criticism about Katrina with respect to a number of other agencies, but the work that was done by USDA employees in feeding and housing thousands of people has gone unnoticed and unremarked upon in the national media. So I want to take this occasion to congratulate them through you for the work that all of your employees did.

The Natural Resources Conservation Service and the Farm Service Agency are working to restore watersheds and farms and ranches throughout the region, which is vitally important.

On a personal note, I would also like to thank you for your department's help in Utah, when we had a natural disaster. January of 2005, just a little over a year ago, Washington County experienced some of the worst flooding in its history. And NRCS rose to the challenge. It has helped restore the damage caused by those floods.

And then, particularly, I want to recognize the efforts of Sylvia Gillen, one of your employees. She is the Utah State Conservationist. And she has been creative and helpful and responsive, and she does a great job for you, and she has done a great job for the people of Utah. And we want to recognize that.

Now the USDA request for the subcommittee is approximately \$15.6 billion, and this represents a 7 percent or \$1.263 billion decrease from last year. We don't usually deal with decreases around here, and these are the OMB numbers. We are awaiting more information from CBO that might change these numbers a little up or down, but basically, they will stay in the same ballpark.

And quite frankly, Mr. Secretary, this is a fairly significant hole that this subcommittee is going to have to try to climb out of. The President's budget eliminates approximately \$378 million of Federal support for agriculture research at the Nation's land grant colleges and universities, as well as USDA's own in-house research agency. That is something that concerns me. I am a strong supporter of research and the value that we get for that long term.

Another \$176 million is eliminated for conservation and watershed projects throughout the country. And one of the unfortunately standard budget tricks that every OMB, regardless of who is President or regardless of which party controls it, is in this budget. The budget includes \$182 million in new user fees, which are not likely to be enacted by the Congress, which means we have got to find another \$182 million in cuts to offset that projected revenue increase.

Finally, funding is eliminated for the Grazing Lands Conservation Initiative, housing for very low-income families, and the Commodity Supplemental Food Program, among others. And I am sure members of the subcommittee will raise these issues with you this morning and give you the opportunity to talk about that.

Now the budget does put an added emphasis on the Food and Agriculture Defense Initiative and activities related to avian flu, the highly pathogenic possible pandemic that we may be facing.

So I will now turn to Senator Kohl, the Ranking Member. Members will be able to submit questions for the record if they are not here. And I will tell members through their staffs who are here; we hope that all questions to the subcommittee can be submitted by

the close of business on Friday, March 17. And then we will forward those to you, Mr. Secretary.

Senator Kohl.

Senator KOHL. I thank you, Mr. Chairman.

Secretary Johanns, we welcome you, and it is good to see you again. Mr. Conner, Dr. Collins, and Mr. Steele, we also extend our welcome to you.

Mr. Secretary, at the outset, I think it is important that we recognize some of the very good work that you and the Department have done this last year. By all reports, the USDA response to the terrible storms in the Gulf Coast, especially from your nutrition and rural development programs, was among the very best in the Government.

Your quick action meant lives saved and families placed firmly on the path toward recovery. So we congratulate you on your good work. But we all know that there have been some missteps at the Department over the past several months, which have too often crowded out the good work that you have done.

Chairman Bennett and I face a tremendous challenge to craft a bill under the current budget constraints. The President's budget assumes too many unrealistic or unacceptable deficit reduction measures. It assumes more than \$300 million in unauthorized user fees that Congress has rejected time and time again, and it calls for the elimination of a small, but vital feeding program for the elderly.

And although this is in the authorizing arena, the President's proposal to tax dairy farmers in order to offset tax breaks for multi-millionaires is not acceptable.

These are all topics we are likely to visit today, and I look forward to your statement.

Mr. Chairman, I want to thank you and publicly state how grateful I am for the relationship that you and I have developed over the past 2 years on this subcommittee, and I look forward to working with you.

Senator BENNETT. Thank you very much.

I will echo the comments about the working relationship. You and your staff have been a joy to work with, and we don't have any partisan differences here. Wish the rest of the Congress could get along as well as we do.

Normally, we do not have additional opening statements. But since there is only one other member of the subcommittee here, Senator Craig, do you have something you would like to say before we hear from the Secretary?

Senator CRAIG. Well, Mr. Chairman, thank you very much.

I guess I was under some odd illusion that this was the Ag Committee, and at this hour, you were probably going to serve breakfast.

But that doesn't appear to be the case.

Senator BENNETT. That is an illusion, sir.

Senator CRAIG. All right. All right. Well, it is possible that the Secretary could have brought examples of products of a variety of States.

Anyway, let me echo what both our Chairman and our Ranking Member have said about the performance of the Department over

the last year and during, Mr. Secretary, some of these most difficult times. I am always amazed that one agency that was not designed to do what the press expected it to do, be a first responder, largely got criticism while so many others did so very well.

The Chairman and the Ranking Member have expressed how USDA performed in Katrina. I chair the authorizing committee of Veterans Affairs, another unbelievable example of true heroism. Thousands of people rescued. No one lost their lives. We evacuated 3 hospitals and the pharmaceuticals and the families of the employees and the pets.

And yet that has made no headlines as, once again, another agency of our Federal Government in a time of tremendous difficulty responded very gallantly, with its staff refusing to leave the hospitals in care of their patients. Concerned about their families, obviously, but not leaving.

So there are great stories out there, and it is important that we recognize them because somehow they don't rise to the level of attention on the part of others.

We are on the eve of a 2007 Farm Bill. It is looming large on the horizon, Mr. Secretary, at a time when the Chairman has already expressed the cuts that are proposed in this budget. And I think he was modest in saying a hole in which one will attempt to dig ourselves out. It is a hole, and we will see how we can handle it.

At the same time, I think you and I were expressing the oddity this morning of a record snow storm in western Oregon and range fires in Kansas, all on the same morning, reported on the same news clip. Record drought in northern Texas and Oklahoma and Arizona and parts of Kansas, and it doesn't appear to be alleviating at this moment. There will probably be some extraordinary needs there that my guess is not in this budget.

So with that, let us get to your testimony and the beginning of a very positive working relationship on this budget to resolve our differences and serve American agriculture.

Thank you. Thank you, Mr. Chairman.

PREPARED STATEMENTS

The subcommittee has received statements from Senators Cochran and Durbin which will be placed in the record.

[The statements follow:]

PREPARED STATEMENT OF SENATOR THAD COCHRAN

Mr. Chairman, thank you for holding this hearing on the fiscal year 2007 United States Department of Agriculture budget. I welcome Secretary Johanns back to the Committee.

I want to thank Secretary Johanns and his staff for their work throughout the Gulf Coast region for their assistance in the effort to recover from the devastating impact of Hurricanes Katrina and Rita. The Department has a large presence in the hurricane affected region which is an important asset to the communities of the Gulf Coast.

The employees of the National Forest Service, Natural Resource Conservation Service, Rural Development, and Farm Service Agency were all ready to assist immediately following the hurricanes. These agencies are to be commended for their swift action and ability to not let "red tape" get in the way of providing immediate help to thousands of Mississippi residents devastated by Hurricanes Katrina and Rita. The efficient manner in which USDA was able to respond after the Hurricane Katrina should be an example for all agencies during times of crisis.

All of Mississippi's agriculture industries were hurt by the hurricanes last summer. Producers and the residents of the rural areas of Mississippi appreciate the continued support USDA has provided for hurricane related losses. But, much more help is needed to get the disaster victims back on their feet. I look forward to continuing to work with USDA to further assist these family farms and ranches.

An important aspect of the Agriculture Appropriations bill is the funding it provides for agriculture research. This research is a critical part of ensuring that U.S. producers remain the leaders in food and fiber production. The funding this bill invests in agriculture research is a small sum compared to the economic benefit it has on a farmer's bottom line. I thank Chairman Bennett and the Ranking Member Senator Kohl for their continued leadership to assist America's farmers and ranchers.

Mr. Chairman, I thank you for holding this hearing and I look forward to the testimony.

PREPARED STATEMENT OF SENATOR RICHARD J. DURBIN

Mr. Chairman, I thank you for holding this hearing on the President's fiscal year 2007 Budget. I thank Secretary Johanns for giving his testimony and agreeing to be here.

I see two main problems with the administration's budget proposal for programs within the jurisdiction of the U.S. Department of Agriculture (USDA). First, the budget does not give farmers the certainty they need from the Federal Government. Farmers and ranchers are engaged in a risky industry, and they do their best to mitigate these risks. Irregular weather systems, crop and livestock diseases that can travel across a continent in a matter of months, and crop and energy prices are among the variables that are out of the hands of individual producers. Farmers understand these risks and build them into their plans by purchasing crop insurance, planting more than one variety of a crop, and keeping up with advances in technology that make them more profitable. However, there's one source of uncertainty that should not tamper with the viability of farming: the Federal Government's spending priorities.

We passed a Farm Bill in 2002 that made a commitment to farmers through 2007 when the bill expires. Now we all understand the need to reduce the deficit. However, farmers and the programs within the jurisdiction of the USDA are bearing the brunt of budget savings plans. Last year, mandatory programs within the mandate of the USDA took a \$2.7 billion hit over 5 years. This cut amounted to 7 percent of the budget reconciliation savings, even though spending on USDA programs accounted for far less of a share of the Federal Government's budget. In addition, it's important to note that the Farm Bill has been far less expensive than its original price tag.

On top of these cuts, the administration is now asking for a 5 percent across-the-board cut in direct payments, counter-cyclical payments, and marketing loans. By my estimations, a 5 percent cut will mean that producers in the State of Illinois stand to take a hit of \$65 million. This cut would follow a crop year in which Illinois suffered from one of the worst droughts in the 100 years since modern records have been kept. With all the uncertainty surrounding the expiration of the Farm Bill in 2007, I can't understand why the administration is focusing so much of its budget-savings plans on agricultural producers that already have to be thinking constantly of their risks.

Second, I believe that this budget demonstrates the administration's failure to support rural America. One of the most promising developments for rural America in recent years is the momentum behind biofuels and alternative energy sources. With soaring gasoline and diesel prices and an increasing acceptance of the fact that dependence on Middle Eastern oil is not a good thing, it has become clear to us all that we must develop alternative fuel sources. More E-85 pumps and more plants processing biofuels mean more jobs and development for rural areas. However, at this historic time, I'm afraid to say that the administration's budget actually cuts funding for the Clean Cities Program, a program that partners with local governments to encourage the use of clean non-petroleum fuels and alternative fuel vehicles. This type of program provides incentives to local communities to expand biofuel infrastructure, and, in doing so, increases demand for the production and processing of alternative energy sources.

I thank the Chairman again for holding this hearing and hope that this subcommittee will consider giving farmers greater certainty and committing to true rural development in this year's appropriations bill.

Senator BENNETT. Mr. Secretary, we will be pleased to hear your statement.

STATEMENT OF SECRETARY MIKE JOHANNIS

Secretary JOHANNIS. Well, thank you very much, Mr. Chairman, and I do appreciate the opportunity to be here in front of this subcommittee.

I also appreciate the compliments relative to the Katrina response. I want to assure each of you that those compliments will be passed on to our employees, who were the ones who were truly at the front lines. And we always accept the criticism of missteps and see that as a challenge to get better.

It has been a year since I became Secretary, and it has been quite a year. We have expanded farm exports. We have worked on new trade agreements. We have reopened beef markets, and we have witnessed strength throughout the farm economy.

During 2005, we have also confronted some very serious issues—hurricanes, natural disasters, AI pandemic, and rising energy costs. USDA has played a significant role in responding to these challenges.

President Bush and I are very proud of the efforts of our employees relative to the hurricanes in the Gulf Coast region. They provided food and shelter, protection, emergency assistance rapidly, and did so very professionally. And those are just a few of the ways that we assisted in that region.

There does remain a great deal yet to be done to normalize their lives. People are struggling to get their homes back, their farms and ranches, and their communities. That is why I am pleased to announce that on January 26, 2006, based upon congressional action and the use of existing authorities, USDA made available \$2.8 billion to assist those impacted by hurricanes. This additional funding brings our effort at USDA to \$4.5 billion.

On February 16, the President submitted a supplemental that includes \$55 million for the USDA to recover additional costs of operating the National Finance Center, which is there in New Orleans, restore the ARS research lab in New Orleans, and to fund floodplain easements. A second supplemental submitted the same date includes \$350 million for Public Law 480, Title II, international food assistance to meet emergency food needs.

The President's 2007 budget for USDA does meet important priorities while exercising fiscal discipline in order to deal with the Federal deficit. Reducing the deficit is a critical part of the President's economic plan. It strengthens the economy and creates jobs.

Farmers and ranchers know the importance of a healthy economy. It raises income, and it increases demand for the products that they raise. Farmers and ranchers also know that the deficit and resulting burden of debt have a profound impact on their way of life and the ability of future generations to participate in agriculture.

Because of the overriding need to reduce the Federal deficit, USDA is sharing in the governmentwide effort. There are proposals in the budget that will produce real savings in both mandatory and discretionary spending. The President's 2007 budget, which was re-

leased about a month ago, indicates that USDA expenditures are expected to decrease about \$3 billion.

The decrease in 2007 is due to CCC reductions from program changes, the legislative proposals, and because one-time supplemental funding is not continued. The discretionary appropriation request pending before this subcommittee which does not include Forest Service, as you know—is for \$15.6 billion.

Some of the highlights, if I could just quickly run through those. Avian influenza. We have been closely monitoring the alarming spread of highly pathogenic AI around the world. I do want to assure you that USDA is a full partner in dealing with this potential pandemic.

In response to the President's request, Congress provided over \$91 million in 2006 emergency supplemental funding for USDA, and we thank you for that. That money will be used for our AI efforts. We are using those funds for international efforts, domestic surveillance of poultry and migratory birds, diagnostics, emergency preparedness and response, and research.

The 2007 budget includes \$82 million for avian influenza. Setting aside that one-time emergency supplemental, the \$82 million represents an increase of \$66 million over 2006 funding levels.

The budget proposes \$322 million in USDA funding for the multi-agency Food and Agriculture Defense Initiative, which is funded now at nearly \$540 million governmentwide. The USDA portion represents a \$127 million increase over 2006. That figure does not include last year's one-time funding for the construction project in Ames, Iowa, for the National Centers for Animal Health because that project has been funded.

But funding increases do exist. There is \$23 million in increases to strengthen the Food Emergency Response Network and Regional Diagnostic Network. There's also \$42 million in increases for research to ensure food safety, identify pathogens, develop improved animal vaccines, and better understand the genes that provide disease resistance. And then there's \$62 million in increases to enhance surveillance and monitoring activities. That helps us detect pest and disease threats to improve response capabilities.

Moving on to another priority, energy. I recently announced a comprehensive energy strategy. As I talked to farmers all across the country, they emphasized the high cost of energy, and so we went to work on that. I am pleased that this budget continues to provide tools that help producers with energy costs. It also funds the development of renewable energy resources and new energy-efficient technology.

In 2007, we will have at least \$345 million available for loans, grants, and other support for energy projects. Within this total, USDA's core investment in energy-related projects increases to \$85 million from \$67 million in 2006. This includes resources available to support renewable energy research and demonstration projects, as well as additional efforts to support energy development.

In addition, we are targeting renewable energy and energy efficiency projects through our rural development loan and grant programs. We anticipate investments in excess of about \$250 million each year in fiscal years 2006 and 2007.

Throughout 2007, USDA will continue its many successful partnerships with the Energy Department, Department of the Interior, and the EPA. USDA's efforts will be coordinated by a newly created Energy Policy Council.

In a related matter, I am pleased to be before this subcommittee today to make an announcement. I am pleased to announce the issuance of the final rule designating the first six items under the Federal Biobased Products Preferred Procurement Program. This rule is available for viewing at the Federal Register today. It will be published tomorrow.

Under the biobased program, all Federal agencies will have to give the designated items preference in their procurement. We believe the designation of these six biobased items initiates a new, economic opportunity for farmers and ranchers. Increased Federal procurement will lead to greater acceptance of biobased products, lower prices, and more variety of products in the market.

The final rule is the first of a series of rules that we expect to publish in 2006 that will designate biobased items consisting of hundreds of branded products. If I might just take a little personal privilege and thank Senator Tom Harkin. He worked very hard on this. When I sat down with him a year ago or more to talk about the biobased program, it was at the top of his list.

We thank everybody who has been a part of this effort. If you will remember, this came out of the 2002 Farm Bill. So there has been a lot of effort to finalize the rule. We thank Congress for pushing this forward. I think it is really a good item.

In terms of farm programs, last year, as we released the budget, there was an expectation by some that the Farm Bill expenditures would end up below 2002 projections. That is what we heard last year. This is not the case.

In 2007, even with the proposed reductions, we expect to spend nearly \$7 billion more than was projected in the 2002 Farm Bill. And the Reconciliation Act passed weeks ago delays, but it does not reduce farm commodity programs. The one exception is the Step 2 program, which is the cotton program.

We acknowledge that there are real reductions in Reconciliation, but they affect other programs, such as rural development, research, conservation. Thus, the administration is reproposing changes to reduce farm program spending. They include reducing commodity payments by 5 percent; reducing the payment limit, implementing small marketing assessments on sugar and milk; and operating the Dairy Price Support Program at minimum cost.

In order to improve the effectiveness of providing good service to farmers, USDA also continues to work with Congress to modernize the field office structure of FSA. Although improvements have been made in modernizing a portion of the computer system, such as Web-based computing systems and the GIS, further investments are needed to replace the remaining outdated and obsolete legacy systems.

This will also permit the full use of Web-based Common Computing Environment. This subcommittee has supported and funded that initiative, and I want you to know how much we appreciate that.

FSA will also work with farmers and ranchers at the local level and with Congress to identify how to consolidate offices where appropriate and ensure that future investments are prudent and done so in a manner that uses tax dollars wisely.

In reference to crop insurance, net expenditures for crop insurance are expected to grow since the reform of 2000 by about 50 percent between 2001 to 2007. At the same time, producers have continued to receive disaster payments, as you know, in ad hoc disaster programs. From 2001 to 2007, when crop insurance payouts did start to rise dramatically, we also delivered about \$9 billion to producers in ad hoc actions.

The budget again includes proposals to enhance crop insurance and reduce costs to deliver the program in order to reduce dependence on ad hoc disaster programs. The budget also requests such sums as necessary for mandatory costs associated with the program and includes funding for additional staffing that would focus on reducing fraud, waste, and any abuse that may exist in this program.

In reference to trade, expanding access to global markets is important for agriculture. Trade plays a critical role. Our budget proposals for 2007 support our continued commitment to trade expansion. Increased funding is provided for the Foreign Agricultural Service to maintain its overseas office presence and continue its representation on behalf of American agriculture.

The new FAS Trade Capacity Building initiative is funded for technical assistance and training activities to assist developing countries. The goal is to strengthen their agricultural policy-making and regulatory systems so they can become better trading partners in other parts of the world.

For the foreign food assistance programs, the budget places increased emphasis on meeting the highest priority emergency and economic development needs, including maintaining funding for the McGovern-Dole International Food for Education and Child Nutrition Program.

Regarding food safety, in order to continue the protection of the Nation's supply of meat, poultry, and egg products, the budget requests funds needed to maintain Federal support of inspection systems. The budget also requests funding to expand the Food Emergency Response Network to support the Food and Agriculture Defense Initiative. With this funding, FSIS will increase the capability of State and local laboratories to handle large volumes of testing.

The budget proposes over \$4 billion in mandatory funding to continue implementation of conservation programs arising out of the 2002 Farm Bill. Within the conservation total, \$83 million in additional resources are requested to extend the Conservation Security Program into additional watersheds and to service prior year contracts. I would like to mention that the 2006 CSP sign-ups began on February 13. They will continue through the end of March.

To help meet the President's commitment to create, improve, and protect at least 3 million wetland acres over a 5-year period, beginning in 2004, the budget includes over \$400 million for Wetlands Reserve Program. This will allow for an additional 250,000 acres to be enrolled in the program in 2007. That is 100,000 more acres

than estimated for 2006 and the largest 1-year enrollment since the program started in 1992.

In the aggregate, funding in the budget will support enrollment of an additional 23 million acres in conservation programs, largely in EQIP. This brings total enrollment to about 197 million acres. That is the highest enrollment in conservation programs in our Nation's history. The budget also includes discretionary funding for ongoing conservation work to meet high-priority natural resources concerns.

For rural development, that part of the budget includes \$14.4 billion in direct loans, loan guarantees, and grants to improve economic opportunities in rural areas. This assistance could be used for everything from financing rural businesses, electric and telecommunications facilities, water and waste disposal projects, and other community facilities. It will also provide home ownership opportunities and assist in revitalizing our multi-family housing projects.

The 2007 budget maintains the administration's commitment to revitalize multi-family housing and provides rent protection for tenants of projects that are withdrawn from the program.

Senator, you mentioned research. In the research area, the 2007 budget funds the highest-priority research facing American agriculture. It also increases the use of competition to improve the quality of research.

The budget includes a \$66 million increase for the National Research Initiative. The budget also includes \$107 million in increases for high-priority research conducted by ARS scientists in areas such as food and agriculture defense, bioenergy, plant and animal genomics and genetics, and human nutrition and obesity prevention.

Speaking of nutrition, we fully fund the expected requirements of the 3 major nutrition assistance programs—WIC, Food Stamps, and Child Nutrition. For WIC, which is the Department's largest discretionary program, the budget proposes \$5.4 billion in program level to support the estimated level of WIC participation. Included in the budget is a \$125 million contingency fund.

For the Food Stamp Program, the budget includes resources to totally fund estimated participation and also provides a \$3 billion contingency fund should costs exceed what we are estimating. We expect an increased level of school lunch participation of about 2 percent, so the budget includes a \$700 million increase for that. There is also a new proposal for a \$300 million contingency fund for the Child Nutrition Programs.

PREPARED STATEMENTS

I just want to wrap up and say we are deeply committed to working on this deficit. We recognize that that is your challenge also. We look forward to working with this Subcommittee in that endeavor.

Mr. Chairman, thank you.
[The statements follow.]

PREPARED STATEMENT OF MIKE JOHANNIS

Mr. Chairman and distinguished members of this Committee, I am pleased to appear before you to discuss the fiscal year 2007 budget for the Department of Agriculture (USDA).

I am joined today by Deputy Secretary Chuck Conner; Scott Steele, our Budget Officer; and Keith Collins, our Chief Economist.

It has been a year since I was given the honor to serve our country as Secretary of Agriculture. It has been an eventful and challenging year. We have expanded farm export opportunities through new trade agreements; re-opened beef export markets that were closed after finding Bovine Spongiform Encephalopathy (BSE); responded immediately to severe natural disasters; and witnessed continued strength in the farm economy.

A major priority has been working to achieve growth in the farm economy through trade. We continue to open foreign markets to U.S. agricultural exports. Since 2001, the administration completed free trade agreements with 15 countries, including the recently completed agreements with Peru, Colombia, and Oman and the Central America-Dominican Republic Free Trade Agreement (CAFTA-DR). The agriculture industry estimates that CAFTA-DR could boost our farm exports by \$1.5 billion. Negotiations for free trade agreements with a host of other important markets are continuing, and we look forward to initiating free trade negotiations with Korea, our sixth largest agricultural export market, in the near future.

During the past year, we also have increased our efforts to reform agricultural trading practices. The United States presented an ambitious proposal to advance the World Trade Organization (WTO) agriculture negotiations and unleash the full potential of the Doha Development Agenda. Reforming global agriculture trade will create new jobs and promote economic development. Our goal is to open new markets by reducing or eliminating unfair competition from production and trade distorting agricultural subsidies and import barriers. We are now working very hard to reach agreement on the terms of an agricultural agreement by the end of April, as agreed to by WTO Members at the recent Hong Kong Ministerial.

Another priority has been our efforts to re-open overseas markets for U.S. beef and beef products. We have achieved a great deal of progress. We have regained at least partial access to 28 markets. As you know, recently a shipment to Japan did not comply with the terms of our export agreement. We are working aggressively to secure a resumption of trade in the near future.

During 2005, we also had to confront other serious issues, such as hurricanes and other natural disasters, the threat of an avian influenza pandemic, and rising energy costs. USDA has played a significant role in responding to these challenges and has made a tangible and positive difference in American lives.

President Bush and I are very proud of the efforts USDA employees have made to provide assistance throughout the Gulf Coast Region in the immediate aftermath of recent hurricanes. These employees helped to rescue more than 600 survivors in Louisiana. We made available more than 22 million pounds of food and 2 million pounds of baby formula for use by the Red Cross, Salvation Army, and other organizations. USDA assisted over 10,000 evacuees obtain temporary housing in 45 States. USDA also aided in the transport of over 13,000 evacuees and our employees fanned out across the region to clear debris from farms, ranches and other watersheds. During the initial days and weeks following the storm, USDA worked closely with the Federal Emergency Management Agency to set up and support 80 disaster recovery centers in Louisiana and Mississippi. The Forest Service played a critical role by utilizing its incident management abilities, managing evacuation centers and base camps, providing logistical support, clearing roadways, helping with search and rescue operations, and operating mobilization centers and trailer staging areas.

These are just a few of the ways that USDA was able to provide immediate assistance to that region. But there still remains a great deal to be done to normalize life for those struggling to take back their homes, their farms or ranches, and their communities. That is why I was pleased to announce on January 26, 2006, that based on Congressional action and the use of existing authorities, USDA has made available \$2.8 billion to assist those impacted by the hurricanes. Of this amount, \$1.2 billion will be made available to agricultural producers through various programs. In addition, \$1.6 billion will be used to restore homes and rural communities. This additional funding brings total USDA aid to hurricane disaster victims to more than \$4.5 billion since September 2005. Finally, the supplemental request submitted on February 16 includes \$55 million in funding to cover additional costs of operating the National Finance Center, repair damages to the Agricultural Research Service (ARS) laboratory in New Orleans and fund floodplain easements.

2007 BUDGET

The President's 2007 budget for USDA meets our most important priorities, while exercising the kind of fiscal discipline that is absolutely necessary to reduce the Federal deficit. Reducing the deficit is a critical part of the President's economic plan. It will strengthen the economy and create more jobs. Farmers, ranchers, and rural citizens know the importance of a healthy economy, which raises household incomes and increases demand for their products.

Farmers, ranchers, and rural citizens also know that the deficit and resulting burden of debt have a profound impact on the economy and, thus, on their way of life and the ability of future generations to participate in agriculture. In the past few months, I had the opportunity to participate in over 20 Farm Bill forums. It provided me the opportunity to meet many producers and hear their ideas on farm policies and the economy. One aspect of the Farm Bill forums focused on the development of farm policy that supports future generations of farmers and ranchers. During these forums, I discussed with producers and community leaders how deficits increase the national debt and debt service costs and displace private consumption and investment, which can be roadblocks to future generations trying to enter agriculture. Producers across the country applauded us for that focus and encouraged us to take down roadblocks that stand in the way of young people. We cannot—on one hand—close our eyes to the deficit—while on the other hand claim to be supporting future generations of producers.

USDA recognizes the overriding need to reduce the Federal deficit, and shares the responsibility of controlling Federal spending. There are proposals in the budget for USDA that will produce real savings in both mandatory and discretionary spending. With that said, the President's 2007 budget request for USDA does meet the Nation's priorities by growing the farm economy through trade; protecting America's food and agriculture; supporting sound land management practices and conservation; providing nutrition assistance to the needy at home and abroad; and creating economic opportunity in rural America. It also makes Government more effective by improving management and accountability and by eliminating, reforming, or phasing out programs that are not cost-effective or do not show measurable results.

The President's 2007 budget, which was released on February 6, indicates that USDA expenditures are estimated to decrease from about \$96 billion in 2006 to nearly \$93 billion in 2007. For the Department's discretionary budget, the overall budget authority request is \$19.7 billion. This compares to \$21.9 billion provided in 2006. There are two main reasons for these reductions. One is that we assume we will not need the emergency disaster assistance funding and other emergency supplemental funding that was needed in 2006. The second reason is proposed program reductions, which include some legislative changes. The discretionary appropriation request pending before this Committee, which does not include the Forest Service, is \$15.6 billion.

I would now like to focus on some specific program highlights.

PATHOGENIC AVIAN INFLUENZA (AI)

For more than two decades, USDA has worked to prepare for and prevent an outbreak of dangerous strains of AI in our country. The greatest concern is the potential for highly pathogenic AI to develop into a human pandemic. We appreciate the \$91.4 million in emergency supplemental funding provided in December 2005. Those funds are being used for specific one-time activities aimed at controlling the disease abroad and keeping it away from U.S. borders; enhancing surveillance of wildlife and domestic poultry; improving diagnostics; and enhancing preparedness.

The 2006 Appropriations Act made \$16 million available for on-going programs to deal with low pathogenic AI and other AI research. Low pathogenic AI is of concern for its potential costs to the poultry industry and potential ability to mutate into highly pathogenic AI. The 2007 budget requests a total of \$82 million for AI, an increase of \$66 million over the amount appropriated in 2006. Of this amount, \$57 million is related to highly pathogenic activities, including: surveillance and diagnostics work; preparedness and response efforts; and international veterinary capacity building. An additional increase of more than \$6 million is requested for the development of methods to detect AI in the environment and further AI research, including development of poultry vaccines. An increase of \$3 million is requested to expand activities related to the program for on-going low pathogenic AI.

FOOD AND AGRICULTURE DEFENSE INITIATIVE

In order to protect American agriculture and the food supply from intentional terrorist threats and unintentional introductions, the budget proposes \$322 million for

USDA's part of the President's Food and Agriculture Defense Initiative, which is 60 percent of total governmentwide funding for the initiative. Funding for ongoing programs includes a \$127 million increase, or 65 percent above 2006. This does not include funding for construction of the Ames, Iowa facility for animal research and diagnostics, which was fully funded in 2006. Of the total amount, an increase of about \$30 million for Food Defense would enhance the Food Safety and Inspection Service's (FSIS) ability to detect and respond to food emergencies and for USDA research agencies to conduct related research. For Agriculture Defense, the budget includes an increase of about \$97 million to improve the Animal and Plant Health Inspection Service's (APHIS) ability to safeguard the agricultural sector through enhanced monitoring and surveillance of plant and animal health, including wildlife; improve response capabilities, including provisions for the National Veterinary Stockpile; and further research on emerging and exotic diseases.

ENERGY

I have heard from farmers and ranchers as I traveled around the Nation about the burden of the high cost of energy. We are taking action to help farmers, ranchers, and rural businesses reduce their energy consumption and make alternative fuels more available. USDA is providing technical assistance and incentives for conservation practices that can result in substantial energy savings. The Natural Resources Conservation Service has recently provided an online tool that clearly demonstrates how costs can be reduced by using alternative tillage practices. In addition, I have directed the Farm Service Agency (FSA) to maximize the use of our guaranteed and direct farm loan programs to help eligible producers who face credit challenges due to increased energy-related operating costs. Because it is likely that energy prices will continue to remain high and fluctuate in the future, the Risk Management Agency will also examine risk management tools that can help farmers limit the negative impact of energy cost increases. To make sure that USDA is effectively using its resources to address energy issues confronting U.S. agriculture, I have recently announced a comprehensive energy strategy to help producers with high energy costs and to coordinate USDA's energy initiatives.

These investments include: research and development, farmer and rancher education programs and using public lands to facilitate the generation and transmission of energy. We are seeking increases in research and development (R&D) and farmer and rancher education programs. We are also targeting renewable energy investments in Rural Development programs where we anticipate making loans and grants of \$250 million or more depending on specific proposals received. USDA is continuing its successful biomass research and development partnership with the Department of Energy in 2007. Past projects funded through this collaborative effort have focused on improving the conversion of switchgrass and other cellulosic materials to ethanol as a replacement for gasoline. These R&D investments will pay off as the efficiency and cost effectiveness of using switchgrass increases.

FARM COMMODITY PROGRAM SPENDING

As part of the President's program to exercise fiscal discipline and reduce the deficit, the budget proposes, once again, that the farm commodity programs funded through the Commodity Credit Corporation (CCC) contribute to the governmentwide deficit reduction effort. Despite record levels of net cash farm income and record agricultural exports, commodity subsidies are significant and near record highs. Payments are at the highest since the enactment of the 2002 Farm Bill. Compared to the original 2002 Farm Bill estimate, lower than expected expenditures from 2003 to 2004 are estimated to be offset by much higher net outlays during 2005 through 2007. Government farm support from 2005 to 2007 is at historically high levels. This recent trend reflects higher than expected program costs that are raising the deficit.

Since the recent Reconciliation Act achieved only very limited savings in CCC programs, the 2007 budget proposes legislative changes similar to the ones included in the 2006 budget. The proposals, which are spread across commodity sectors, include: reducing farm program payments across the board by 5 percent; reducing the payment limitation to \$250,000; operating the dairy price support program at the least cost; and applying small marketing assessments to sugar and dairy.

Similar to last year, these proposals are designed to work within the existing structure of the 2002 Farm Bill to achieve savings of about \$1 billion in 2007 and about \$7.7 billion over 10 years. Even with the proposed reductions, CCC expenditures in 2007 are projected to remain \$7 billion above the estimates made when the Farm Bill was enacted.

FARM PROGRAM DELIVERY

Recognizing the importance of our farm programs to the livelihood and ongoing operations of farmers and ranchers throughout the Nation, we are continuing to review the farm program delivery system to ensure we are providing the highest level of customer service. In addition to the funding needed to support an adequate level of staffing to deliver program benefits in a timely manner, our budget proposes resources to make the IT investments that are critical to modernizing the delivery of these programs. I appreciate the Committee's support for efforts that have been made in recent years to design and implement a common computing environment (CCE) that allows the service center agencies to communicate via the internet and take advantage of shared services. However, critical needs remain in updating the so-called legacy farm program delivery systems that are currently operated with decades-old software and hardware that is no longer produced. It is imperative that these systems be updated so they can also take advantage of the CCE, a modern web-based system, and make the fullest use of investments being made to improve geographic information systems and data. The budget proposes \$14 million to continue an effort to enhance the efficiency of program delivery by redesigning business processes and developing the IT systems to carry out those processes. I would appreciate the Committee's favorable consideration of this proposal.

CROP INSURANCE

Crop insurance is designed to be the primary Federal risk management tool for farmers and ranchers. Crop insurance expenditures are expected to grow by more than 50 percent between 2001 and 2007 with the implementation of crop insurance reforms in 2000, the expansion of the program to new crops, and the development of new types of coverage. Despite this growth, since 2000, four ad hoc disaster programs have been authorized, covering 6 crop years. These ad hoc payments add up to over \$9 billion. The continued reliance on disaster assistance stems, in part, from the low coverage level of catastrophic crop insurance (CAT), which provides a maximum of 27.5 percent of the crop value for a total crop loss. When natural disasters occur, that low level of protection creates the demand for additional disaster assistance.

In continuing the administration's efforts to more effectively budget and administer crop disaster programs, the 2007 budget repropose changes included in the 2006 budget to encourage producers to purchase more adequate crop insurance coverage by tying the receipt of direct payments or any other Federal payment for crops to the purchase of higher levels of crop insurance. This change would ensure that the farmer's revenue loss would not be greater than 50 percent. Other changes include making catastrophic coverage more equitable in its treatment of both large and small farms, restructuring premium rates to better reflect historical losses, and reducing delivery costs. The combination of changes is expected to significantly improve the program and save the Government approximately \$140 million per year, beginning in 2008. In total, this change should ensure that the majority of producers have crop insurance and that the minimum coverage level is sufficient to sustain the producer in times of loss.

The 2007 budget includes about \$81 million in discretionary funding to administer the Federal Crop Insurance Program, compared to about \$76 million for 2006. In support of our efforts to strengthen oversight and improve management efficiency, the budget includes funding for the replacement of a decade old IT system that has reached the end of its useful life. Funding is also included for additional staffing needed to reduce fraud, waste and abuse in the crop insurance program. Additionally, a legislative proposal will be submitted to collect a participation fee from insurance companies to help share in the cost of modernizing the existing IT system beginning in fiscal year 2008.

TRADE

As I mentioned, a top priority has been to restore access to the Japanese and other markets for American beef overseas. Having achieved positive results, we are disappointed that the Japanese market has temporarily closed again. The failure to meet all of the requirements of our export agreement with Japan is unacceptable. We are taking this matter seriously, recognizing the importance of our beef export market, and we have taken swift and firm action to address the situation.

Last January after this incident occurred, I announced a series of follow-up actions we are taking to address this situation and outlined those actions in discussions with Japanese officials, including the Minister of Agriculture, Forestry, and Fisheries. Since then, the Department has conducted two detailed investigations of

the incident, and we have provided the results to the Japanese Government for their review.

We look forward to an expedited review of the situation by the Japanese Government and the resumption of beef trade in the near future. It is also worth noting that, despite the problems we have encountered with Japan, we are making progress in reopening other markets. Hong Kong, Taiwan, and Singapore have reopened their markets while Korea formally announced its plans to resume imports by March.

Expanding access to global markets is important for all U.S. food and agricultural products, and plays a critical role in our efforts to ensure a prosperous future for America's farmers and ranchers. Our budget proposals for 2007 support our continued commitment to trade expansion activities. Increased funding is provided for the Foreign Agricultural Service (FAS) to maintain its overseas office presence and continue its representation and advocacy activities on behalf of American agriculture.

A new FAS Trade Capacity Building initiative is funded for technical assistance and training activities that will assist developing countries to strengthen their agricultural policy-making and regulatory systems and become better trading partners. By assisting these countries to adopt policies that meet World Trade Organization standards and adopt regulatory systems that are transparent and science-based, we will improve access for U.S. products to their markets. Also, by enhancing their ability to benefit from trade, we encourage them to become more forthcoming and supportive in market access negotiations. These activities would complement the steps APHIS will take to open offices in strategic foreign locations to address technical sanitary and phytosanitary issues that can impede trade between the United States and other countries.

For the foreign food assistance programs, the budget places increased emphasis on meeting the highest priority emergency and economic development needs. Funding for the McGovern-Dole International Food for Education and Child Nutrition Program is maintained at this year's level, with a modest increase in participation expected. The program is helping children in countries with severe needs in education and nutrition, such as Afghanistan. Over a 5-year period, USDA is providing over \$50 million of assistance through the McGovern-Dole Program to Afghanistan where it is helping to build schools, improve attendance, and feed about 60,000 students each year.

Food for Progress programming carried out with CCC funding is projected to increase slightly in 2007. The program provides assistance to developing countries and emerging democracies that have made commitments and are taking steps to introduce and expand free enterprise in their agricultural economies.

To address emergency needs this year, the supplemental appropriations request submitted by the President on February 16 includes an additional \$350 million for Public Law 480 title II food aid donations, which is needed to bolster our response to urgent food needs in several regions of Africa. With this funding, the United States will be able to meet our target of providing 50 percent of the identified food needs in Darfur and other regions of Sudan. It will also help us to respond to what appears to be a burgeoning food crisis in East and Central Africa, which has been brought on by disappointing rains and other problems.

The budget further enhances our ability to respond to emergency situations overseas in which food aid is critical to preventing famine and saving lives. In light of a heightened demand for emergency food aid in recent years, all funding for Public Law 480 food assistance in 2007 is requested for the Title II donations program which is increased by \$80 million. To help improve the timeliness, efficiency, and effectiveness of the U.S. Government's response to emergency situations, increased flexibility is requested in the purchasing of Title II commodities. The budget proposes that the Administrator of the Agency for International Development (AID) have the authority to use up to 25 percent of Title II funding to purchase commodities in locations closer to where they are needed, such as neighboring countries.

FOOD SAFETY

The Nation's current food safety inspection system has demonstrated that our food supply is among the safest in the world. Recent data released by the Centers for Disease Control and Prevention continues to show improvements based on historical reductions in the incidence of foodborne illness. The continued reduction in illnesses from pathogens like *E. coli* O157:H7 is a tremendous success story and USDA is committed to continuing this positive trend in the future. These results demonstrate that we are moving in the right direction. We have increased the focus of our policies on the goal to reduce human foodborne illness by measuring the prevalence and types of food safety failures and using this knowledge to focus resources

and attention where the risks are the greatest. Through these actions, we are protecting the public's health through a safer food supply.

The 2007 budget provides for continued protection of the Nation's supply of meat, poultry and egg products and includes a program level of \$987 million for FSIS. This is an increase of \$35 million over 2006. Approximately half of the increase in funds is for pay, including monies required to maintain Federal support of State inspection programs to meet the demand for inspection services. The remaining amount is for program changes, including funding to allow FSIS to move towards a more robust risk-based inspection system.

In order to take further steps towards a more enhanced risk-based inspection system, funds are requested to develop risk-based verification and enforcement strategies that take into account the hazards posed by products and how well establishments are controlling those hazards. This would include additional microbiological sampling, inspector training, and the creation of an establishment database. Information from these initiatives will enable FSIS to wisely allocate resources to priority areas and provide increased understanding of which food safety systems prevent foodborne illness and promote the public's health. In addition, funding is requested to increase the speed at which the agency collects, analyzes, and reports Salmonella testing data, which will improve the agency's response to outbreaks of foodborne illness.

The budget also requests funding to expand the Food Emergency Response Network (FERN) in support of the Food and Agriculture Defense Initiative. With this funding FSIS will continue to develop the network of food laboratories and the result will be an increase in the capability of a network of coordinated Federal, State and local laboratories to handle large volumes of testing that would be needed for biosurveillance or in the event of a widespread food emergency.

For FSIS, the budget requests an appropriation of \$863 million and \$124 million in existing fees. In addition, the budget includes \$105 million that would be derived from new user fees to recover the cost of providing inspection services beyond an approved 8-hour-primary shift.

CONSERVATION

The 2002 Farm Bill represented an unprecedented commitment to conservation. The 2007 budget continues to support this commitment with a record level \$4 billion request in mandatory funding to expand enrollment in these programs by an additional 23 million acres. Under the proposal, USDA would provide conservation assistance on 197 million acres, the greatest amount of conservation assistance in history.

Within the total amount, the budget proposes over \$400 million for the Wetlands Reserve Program (WRP), an increase of \$153 million, or 61 percent over 2006. The projected WRP enrollment for 2007 would be the largest ever, involving 250,000 acres, and will bring the total acreage enrolled in the program to over 2.2 million acres. The WRP is the principal supporter of the President's goal to restore, protect, and enhance 3 million acres of wetlands over 5 years beginning in 2004.

Funding for the Conservation Security Program would be increased by \$83 million, or 32 percent, to continue to extend the program to additional watersheds in 2007. Finally, the 2007 budget supports a net increase in enrollment of 2.7 million acres in the Conservation Reserve Program (CRP), which would bring total program enrollment to 38.9 million acres by the end of 2007, a 7 percent increase in coverage. CRP funding represents more than one-half of the total for all Farm Bill conservation programs.

The 2007 budget also includes \$788 million in discretionary funding for on-going conservation work. This is a decrease of \$207 million below the 2006 enacted level and reflects the realignment of the administration's priorities to direct limited conservation funding to the highest priority natural resource concerns. USDA will be able to deliver high quality and timely technical assistance to farmers and ranchers to address natural resource concerns on their operations. The budget does not request funding for watershed operations and planning, Grazing Lands Conservation Initiative, and earmarked projects. The budget also proposes to reduce the number of Federal coordinator positions funded under the Resource Conservation and Development (RC&D) program, for a savings of \$25 million. Under this proposal, the number of authorized RC&D areas would be maintained at the current level of 375 but coordinators will be responsible for providing assistance to multiple areas.

RURAL DEVELOPMENT

The 2007 budget includes \$14.4 billion in direct loans, loan guarantees and grants to improve the economic opportunities and quality of life in rural America. This as-

sistance will be used to finance rural businesses, electric and telecommunications facilities, water and waste disposal projects and other community facilities; provide homeownership opportunities; and revitalize USDA's portfolio of multi-family housing projects. Most of the on-going rural development programs are maintained at current levels. There is a \$3.6 billion reduction in 2007, which is due primarily to the exclusion of \$1.6 billion in 2006 supplemental emergency funding for the Gulf Coast hurricanes and \$1.5 billion for a 2002 Farm Bill program to guarantee notes of private sector electric and telephone borrowers.

The on-going electric and telecommunications programs are funded at the anticipated level of demand, over \$4.9 billion in direct loans. About \$200 million of this amount is expected to be used for new power supply projects for renewable energy that will support the President's energy policy.

The community facilities program provides direct loans, guarantees, and grants to finance essential community facilities, with priority given to health and safety facilities. The 2007 budget provides \$297 million in direct loans, \$208 million in guarantees, and \$17 million in grants for this program—the same as was available for 2006. This level of funding will support over 560 new or improved health care facilities, child care, fire and emergency services and other facilities lacking in rural America.

The proposed budget for the water and waste disposal programs would support almost \$1.1 billion in direct loans. The program would be supported through loan subsidies and grants at about the same level in 2006—\$514 million for 2007 compared to \$525 million for 2006. However, a greater portion of the subsidy would be applied to reducing interest rates charged to borrowers rather than providing grants. For most communities, which normally receive a combination of loan and grant assistance, the reduction in interest rates would be of greater benefit in terms of lowering the overall debt servicing costs of their projects, than they would otherwise receive from an equivalent amount of grant.

The 2007 budget would support \$4.8 billion in direct and guaranteed loans for single-family housing, about the same level as available for 2006. This level of assistance will provide homeownership opportunities for nearly 41,000 rural families.

The business and industry program is maintained at a level of about \$1 billion in loan guarantees. The value-added program is also maintained at its current level of \$19 million in grants. Overall, the rural development business programs are expected to create or save over 56,000 rural jobs.

The 2007 budget repropose the administration's initiative to revitalize its portfolio of multi-family housing projects, which are home to close to half a million low-income families. A recent Supreme Court decision allows project sponsors to prepay their loans and convert their projects to uses other than low-income housing, putting tenants at risk of higher rents and potential loss of housing. A priority under the administration's initiative will be on providing housing vouchers to protect the rents of tenants of projects that are withdrawn from the portfolio. The administration will also pursue enactment of legislation it has already submitted to Congress to authorize debt restructuring and other incentives for project sponsors to remain in the program and make necessary repairs.

RESEARCH

The 2007 budget funds the highest priority research issues facing American agriculture and increases the use of competition to improve the quality of research. The budget includes a \$66 million increase for the National Research Initiative, the Nation's premier competitive, peer-reviewed research program for fundamental and applied sciences in agriculture. The increase includes funding for high priority initiatives in food and agricultural security, gene mapping, the ecology and economics of biological invasions, plant biotechnology and water security. The budget also includes \$107 million in increases for high priority research conducted by ARS scientists in areas such as food and agricultural defense, bioenergy, plant and animal genomics and genetics, and human nutrition and obesity prevention. These lines of investigation have great potential to benefit producers and consumers; assure an abundant, safe, and inexpensive supply of food; and ensure the preservation of our natural resource base.

While the 2007 budget continues overall funding for both the Hatch and McIntire-Stennis programs at the 2006 appropriated level, the budget proposes an increase in the use of competition to improve the quality of USDA supported research. The 2007 budget includes a proposal to modify the Hatch and McIntire-Stennis formula programs so that over half of the funds would be competitively awarded by 2011. Under the proposal, the Hatch formula program would be modified by expanding the multi-State research component from the current base of 25 percent to about

55 percent of total Hatch funding. In 2007, 35 percent of Hatch funds will be awarded competitively to multi-State/multi-institutional projects. Over the course of the next 4 years, the remaining multi-State formula funds would be phased into competitive funding through an additional 5 percent increase each year as existing projects are completed. Therefore, by 2011, about 55 percent of funding under the Hatch program will be for competitively awarded multi-State projects and about 45 percent would be allocated as formula funds.

The 2007 budget also modifies the McIntire-Stennis formula program by creating a multi-State research program that will comprise 59 percent of program funding. The proposal calls for all McIntire-Stennis multi-State funds to be distributed through competitively awarded grants in 2007. These proposals take into account the expressed concerns of USDA partners in the land grant community, including smaller institutions, regarding the proposal in the 2006 budget. As a result, this new approach would sustain the use of Federal funds to leverage non-Federal resources, maintain program continuity, facilitate responsiveness to State and local issues, and leverage and sustain partnerships across institutions and States. Our intention is to craft the details of the programs in consultations with our land grant and forestry college partners.

NUTRITION ASSISTANCE

The budget contains sufficient resources to fully fund expected participation, food cost inflation and contingency funds for the Department's three major nutrition assistance programs: Food Stamps; Women, Infants and Children (WIC); and Child Nutrition. Participation levels fluctuate with economic conditions and the budget keeps pace. WIC participation is expected to grow slowly in 2007 to a total of 8.2 million participants. Food Stamp participation is expected to decrease about 4 percent from the 2006 projection to about 25.9 million in 2007 as people affected by the hurricanes in the Gulf States get back on their feet. School Lunch participation is estimated to grow about 2 percent to keep pace with the growing student population, as it has in recent years, to a new record level of 30.9 million children per day.

For Food Stamps, legislation will be proposed that would exclude all qualified retirement savings accounts from eligibility determinations regardless of how other programs treat them. By 2009, this would allow about 100,000 additional people to participate who otherwise would have been ineligible unless they spent down their retirement savings. This would add an estimated \$48 million in costs for 2007 and about \$146 million in 2009 when fully implemented. The 2007 budget also repropose legislation to restrict participation among certain households with incomes or resources above normal eligibility thresholds. Affected households are those that do not receive cash Temporary Assistance for Needy Families (TANF) benefits, but become categorically eligible for food stamps because they receive a TANF-funded service, including one-time information and referral. This change would reduce costs by an estimated \$71 million in 2007, with additional savings in subsequent years.

The WIC request provides full funding for all those estimated to be eligible and seeking services. At the same time, the Department will work with stakeholders to contain costs and continue to improve the program's performance. WIC legislative proposals include limiting administrative funding to 25 percent of total program costs, and limiting categorical eligibility to those with incomes under 250 percent of poverty. Also, the budget proposes legislation to require 20 percent State matching for WIC administrative costs. The proposal would take effect in 2008, after State legislatures have had time to appropriate the matching funds. WIC is one of the few Federal programs that does not require States to provide matching funds for administrative costs.

The 2007 budget does not request funding for the Commodity Supplemental Food Program (CSFP), which is not available nationwide and duplicates two of the Nation's largest Federal nutrition assistance programs—Food Stamps and WIC. Eligible women, infants and children participating in CSFP will be encouraged to migrate to the WIC Program. Eligible elderly CSFP recipients will be encouraged to migrate to the Food Stamp Program, where most are believed to be eligible. The budget includes temporary transitional benefits for CSFP participants 60 years of age or older equaling \$20 per month for the lesser of 6 months or until the recipient starts participating in the Food Stamp Program.

DEPARTMENT MANAGEMENT

The 2007 budget builds upon our progress in improving overall management of the Department. Increased funding is being sought for selected key priorities:

- Beginning the acquisition of a modern core financial system to replace USDA's outdated system, which is no longer supported by a vendor. The current system relies on software that no longer meets financial management standards. The adoption of technology that meets these standards will increase the efficiency of the system, allow for less costly updates and strengthen internal controls.
- Completing the expansion of the successful Equal Employment Opportunity complaints processing system to include complaints of discrimination levied by participants in the Department's programs.
- Continuing renovations of USDA facilities in order to ensure that employees and customers have a safe and modern working environment.

Over the course of the past year, USDA has continued to achieve success in implementing the President's Management Agenda (PMA). The PMA focuses our efforts on those things that are most critical to good management, including sound financial systems, innovative uses of IT, and ensuring the effective use of human resources. A major part of this effort has been the use of Program Assessment Rating Tool (PART) to inform funding and management decisions. Under PART, USDA has evaluated 70 programs and developed plans to improve their performance. These improvement plans are available to the public on the recently released ExpectMore.gov website. The website provides the public with easily accessible information about Federal programs, their performance, and actions the administration is taking to improve performance in the coming year. The website is a new tool to help increase transparency and accountability in Federal programs.

In summary, I want to emphasize that the President is serious about reducing the deficit to help maintain strong economic growth. This budget sets clear priorities for U.S. agriculture, conservation, and nutrition while responsibly restraining spending. This budget puts us in the right direction for reducing the deficit and protecting future generations of American producers by establishing the foundation for a strong economy.

That concludes my statement. I look forward to working with members and staff of the Committee and will be glad to answer questions you may have on our budget proposals.

PREPARED STATEMENT OF ANNABELLE ROMERO, DEPUTY ASSISTANT SECRETARY FOR CIVIL RIGHTS, OFFICE OF ASSISTANT SECRETARY FOR CIVIL RIGHTS

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to submit this statement supporting the President's fiscal year 2007 budget proposal for the United States Department of Agriculture's (USDA) Office of the Assistant Secretary for Civil Rights (ASCR).

The Office of the ASCR provides policy guidance, leadership, outreach, coordination, training, and complaint prevention and processing for USDA. Our mission is to provide equal opportunity, equal access and fair treatment for all USDA customers and employees.

The Office of Civil Rights has made significant progress in addressing major civil rights challenges at USDA since the establishment of the ASCR position. The Office of Civil Rights began fiscal year 2005 with 1,331 pending EEO complaints and ended fiscal year 2005 with 1,402 EEO complaints. During fiscal year 2005, 662 new EEO complaints were received, and a total of 591 EEO complaints were closed. The Office started the fiscal year 2005 year with 363 pending program complaints and ended fiscal year 2005 with 404 program complaints.

FISCAL YEAR 2007 OBJECTIVES

The Office of Civil Rights has the following four overarching strategic objectives for fiscal year 2007 that contributes to the Department's success. They are to:

- Ensure equal opportunities for employees and applicants and equal access for USDA customers.
- Ensure that equal employment opportunity and civil rights complaints are processed timely, efficiently, and in a cost effective manner.
- Increase USDA-wide awareness and use of Alternative Disputes Resolution (ADR) for early resolution of civil rights complaints and non-civil rights disputes.
- Establish effective outreach programs in USDA.

FISCAL YEAR 2007 KEY OUTCOMES

The Office of Civil Rights plans to achieve the following key outcomes in fiscal year 2007: (1.) A reduced number of equal employment opportunity and civil rights

program complaints. Increasing the education and awareness of civil rights is likely to decrease the number of EEO and civil rights program complaints filed. (2.) Efficient and cost effective processing of equal employment opportunity and civil rights program complaints within the regulatory timeframes. (3.) Timely and effective resolution of a larger number of civil rights and non-civil rights complaints through increased awareness and use of Alternative Dispute Resolution. (4.) Effective outreach programs in every agency. Strengthening the agencies' outreach efforts, developing outreach policies, and providing training on best outreach practices to ensure timely access to all customers, thereby improving minority and underserved population participation in USDA programs.

FISCAL YEAR 2007 BUDGET REQUEST

The fiscal year 2007 Appropriation request for the Office of Civil Rights is \$22.7 million. This is an increase of \$2.7 million over fiscal year 2006. The funding request includes increases for the following:

- Civil Rights Enterprise System Improvement—\$1.987 million.*—Funds for the Civil Rights Enterprise System are requested to continue the expansion of the complaints processing system. USDA agencies will be able to interface on a web-based system that will provide customers and employees real-time data regarding their discrimination complaints.
- Compliance Monitoring Activities \$0.354 million.*—The Office of Civil Rights is mandated to conduct compliance reviews in the employment and program division. However, funding is needed to meet new requirements designed to meet the affirmative employment goals of the Equal Employment Opportunity Commission's Management Directive 715. Compliance reviews will result in civil rights complaint prevention and reduction.
- Pay cost \$0.401 million.*—The request for pay cost is for the anticipated fiscal year pay raise.

I would like to emphasize the importance of the Committee's approval of the President's \$22.7 million budget for USDA's Office of Civil Rights. The proposed budget will help ensure that USDA continues progress in providing fair and equitable delivery of its services and programs to our customers and also protects the civil rights of USDA employees.

PREPARED STATEMENT OF PETER J. THOMAS, DEPUTY ASSISTANT SECRETARY, DEPARTMENT OF AGRICULTURE

Mr. Chairman and members of the Subcommittee, I want to thank you for the opportunity to submit this statement supporting the President's budget proposal for fiscal year 2007 for the Department of Agriculture's (USDA) Departmental Administration.

Departmental Administration (DA) is responsible for a wide range of activities. Our mission is to promulgate Department-wide policies in areas such as Human Resources, Procurement, Property Management, Ethics, Security, and similar key administrative areas. DA also provides comprehensive facilities support services for the owned and leased offices that USDA has throughout the National Capital Area. Furthermore, DA directly provides the Secretary, his Subcabinet, and the principal staff offices with a full suite of administrative support. Because of DA's direct responsibilities over USDA's headquarters operations, and its policy oversight of USDA's vast property and human assets, it is also responsible for providing security both for worksites and, more importantly, for the employees housed in those worksites. Since September 11, 2001, DA has, largely using funds provided in the 2002 homeland security supplemental appropriations, greatly enhanced its protection of USDA's staff and its critical infrastructure.

My statement covers three appropriations: The Departmental Administration Direct Appropriation, which funds most of our offices; the Agriculture Buildings and Facilities and Rental Payments Appropriation for the National Capital Area facilities and rental payments to the General Services Administration (GSA) for space occupied nationwide by USDA agencies except the Forest Service; and the Hazardous Materials Management Appropriation which funds clean-up activities under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). I would like to address the Agriculture Buildings portion first since our South Building renovation project, a key priority, is funded from this source.

AGRICULTURE BUILDINGS AND FACILITIES

The fiscal year 2007 budget request for Agriculture Buildings and Facilities and Rental Payments of \$209.8 million includes \$155.9 million for rental payments to GSA and, \$53.9 million for operations, maintenance, repair, and security of our existing four-building headquarters' facilities, including \$14.1 million towards repairing and renovating the aging South Building.

Consistent with our goal to ensure a safe and functional USDA workplace, the \$14.1 million funding to continue the repair and renovation of the South Building is critical. Funding for this project was not available in fiscal years 2004–2006 and it is important to resume funding for these renovations. This is a massive, multi-year project, and every year that we lose lengthens the period during which 6,500 employees and thousands of visitors per year are exposed to health and safety hazards. The project began in 1998 and was designed to be accomplished in eight phases. Three phases have been completed and are occupied. Design of Phase 4A and construction of the new mail center facility began in September 2004. Among other things, critical work is being done on fire protection systems, abatement of hazardous materials and replacement of aged, unreliable and inefficient utility systems. The requested fiscal year 2007 funding will allow USDA to conclude construction of Phase 4 and to design Phase 5.

DEPARTMENTAL ADMINISTRATION DIRECT APPROPRIATION

The fiscal year 2007 request for the Departmental Administration (DA) Direct Appropriation is \$28.3 million. We have made significant progress in a number of areas funded by the Departmental Administration Direct Appropriation, and I would like to outline some of them here and explain our proposals for continued improvement in fiscal year 2007.

PHYSICAL SECURITY

As previously discussed, physical security in the National Capital Region is addressed within the Agriculture Building and Facilities Appropriation. DA also has responsibility for physical security policy for USDA owned and leased facilities worldwide. USDA conducts its programs in approximately 25,000 structures at more than 7,000 sites around the world. The Office of Procurement and Property Management within DA provides overall leadership and direction to USDA agencies in the management and coordination of security for these facilities. Major activities include policy development, education and training, and security assessments of facilities.

After September 11, USDA understood there was a need to rethink the way it had historically approached physical security enhancements at its facilities. Given the number of buildings and sites at which USDA conducts its business and the finite resources available, we needed to find a process that would link available resources to our most critical needs and priorities. Partnering with each of our agencies, we developed an inventory of mission critical facilities where we should first focus our security efforts. Among the sites reviewed were labs conducting research involving biohazardous materials; labs responsible for protecting the Nation's food supply; facilities housing valuable germplasm collections; labs in foreign countries; USDA computer centers processing payroll, vendor, and program payments; and facilities housing aircraft. We hired a small staff of physical security specialists and retained contractors to perform security assessments at our critical facilities using a risk-management approach advocated by the Government Accountability Office. We also retained contractors to install security enhancements and develop a database, the Geographic Security Information System, to help us manage and track the progress in enhancing security to our mission critical facilities at the various locations. Following the guidance within Homeland Security Presidential Directive (HSPD) 7, this database was integrated into a Geographical Information System. To date we have completed security assessments at approximately 90 percent of "mission critical" facilities. We have also developed a comprehensive manual that provides our agencies with standards and guidelines as we continue to assess and improve our security posture with regard to: chemical, biological and radiological agents; information technology; food safety; animal and plant research; water resources; and aviation assets.

In accordance with HSPD 7 (facility security assessment required) and HSPD 9 (facility security assessment conducted every 2 years), USDA is developing a self-assessment tool to be used by facility managers at any USDA location. This tool will serve as standard guidance for managers of smaller offices and facilities across the country. The site directors at these smaller facilities will have the capability to remotely provide critical site-specific security information to a security analyst in one

central office and then be provided security guidance for their site. This guidance will enhance the protection of their facility and mission critical assets.

In late 2005, DA began implementing HSPD-12 (Smart Card), following OMB and USDA guidance, for Personal Identification Verification (PIV). Under PIV, all new employees and new contractors must have a successful fingerprint processed by the FBI and a successful "National Agency Check with Inquiries" (NACI) by Office of Personnel Management (OPM), in order to receive a permanent badge with access rights to Federal facilities. In fiscal year 2006, the Office of Operations within DA provided guidance to all USDA agencies in the National Capital Region on issuing identification badges for new employees and contractors. DA will be determining which current USDA employees need to have a NACI processed in order to receive their permanent badge. This will be completed following a set schedule over the next 2 years. DA procedures are in full compliance with HSPD-12 PIV Stage I.

CONTINUITY OF OPERATIONS PLANNING

DA continues to be an active participant in the Continuity of Government (COG) and Continuity of Operations (COOP) programs in the Department. One of our primary functions is to review the Department's and USDA agencies' COOP Plans on a regular basis to ensure responsiveness to current threat situations. To ensure plan viability, formal revision of all USDA COOP Plans will continue as a biennial requirement. In order to maintain readiness, USDA continues to conduct functional exercises and planning workshops. In fiscal year 2005, revisions to the USDA Headquarters COOP Plan were based on the updated Federal Preparedness Circular 65 requirements to develop devolution, reconstitution, and human capital plans. A functional exercise was conducted in June 2005 to disseminate lessons learned from the previous planning cycle. USDA had a robust participation in an interdepartmental exercise conducted in late June 2005. In fiscal year 2006, the USDA Headquarters plan will be revised to include pandemic influenza planning, refinement of devolution, reconstitution and human capital plans will continue, functional exercises will consist of a major interagency COOP exercise, evaluation of agency-sponsored exercises and COOP activities, Department-wide COOP awareness training, and the beginning of a formal revision of the HQ COOP Plan and agencies' supplements. In addition, support to the National Emergency Management Team will continue. In fiscal year 2007, agency supplement COOP plans will be formally reviewed; functional exercises will consist of testing pandemic influenza planning and participation in a major interagency COOP exercise, evaluation of agency-sponsored exercises and COOP activities, and the continuation of Department-wide COOP awareness training. Our fiscal year 2007 request includes \$760,000 to ensure USDA is compliant with Executive Orders and Presidential Directives dealing with Emergency Preparedness and the requirements for Federal Executive Branch Continuity of Operations. With this increase, DA will have the funding needed to maintain the COOP for the Office of the Secretary, provide guidance and training to mission areas, and provide support and training to USDA's National Emergency Preparedness Team.

PERSONNEL AND INFORMATION SECURITY

USDA will continue to improve the personnel security program in fiscal year 2007 through re-engineering and modernization efforts. The fiscal year 2005 in-house adjudication and processing time averaged 22 workdays after receipt of the final background investigation report. These efforts are closely aligned with the President's Management Agenda eGovernment Initiative "e-QIP" (electronic processing of security questionnaires). Key Departmental personnel are now fully trained and capable of using the e-QIP system to electronically submit investigative requests. This system has resulted in further improvements in staff efficiency and additional reductions in processing and handling time for personnel security cases. Restoring our personnel security program has increased the reliability of public trust positions and ensures that staff members are cleared for national security classified information in positions needing such access. Annually, the Department requires approximately 2,400 investigations and reinvestigations each year to maintain the currency of its employees.

USDA revitalized an information security assurance program intended to safeguard national security information. The post-September 11 environment has made it clear that all Federal agencies have to make sure that national security information is properly safeguarded. Adding further importance, the USDA has been granted original classification authority to classify national security information to the secret level. To implement an effective program to safeguard this information, USDA has added information security specialists to the staff, launched an information se-

curity web site, drafted a security classification guide, briefed senior leadership on national security classification, and provided supplemental training to managers and front line staff. Finally, USDA established an inter-agency work group that includes nine additional Departments/agencies to address common issues, including development of an automated on-line security awareness refresher briefing for government-wide use

The fiscal year 2007 request includes an increase of \$1,840,000 to provide funds to ensure the Personnel and Document Security Program is operational and compliant with the Executive Orders and Presidential mandates. USDA plans include: development of training programs for employees who have security clearances; meeting the requirement that adjudicative results are furnished to the Office of Personnel Management within 90 days of receipt of a closed background investigations; and operating and maintaining an enterprise data base on national security clearances issued by the Department.

HUMAN CAPITAL MANAGEMENT

The Office of Human Capital Management (OHCM) in DA provides policy guidance to USDA agencies on human capital management, one of the five initiatives of the President's Management Agenda. USDA faces a number of human resources challenges. Over the next few years, it is anticipated that an unprecedented number of executives and managers will retire, as will many of our cadre of researchers, veterinarians, and other critical professionals. Our workforce must be competent, reliable and dedicated to new business and scientific challenges in research, food safety, trade, and agricultural production and conservation. During fiscal year 2005, this office published the Strategic Human Capital Plan that set direction and frameworks for measuring accomplishments achieved in workforce planning, employee and leadership development, recruitment and retention, and performance management. USDA agency plans provide workforce assessments and strategies to narrow skill gaps in agency mission critical occupations, and link them to recruitment, hiring, and retention strategies to help meet succession plans. OHCM and other USDA agencies are developing an annual Recruiting Plan, including an evaluation process for cost-effectiveness to improve hiring and recruitment strategies. OHCM is leading USDA to strengthen its performance appraisal programs by aligning individual employee performance expectations with agency goals. As of the fourth quarter of fiscal year 2005, over 60 percent of USDA's employee performance plans are aligned with agency goals, as reflected in the PMA scorecard for human capital.

Departmental Administration is requesting an increase of \$2,348,000 for providing support to policies and technical guidance for enhancements to HR performance programs. DA plans to review the current performance systems in USDA and evaluate possible alternatives that are available to Federal employees. More emphasis will be placed on contemporary performance-based solutions rather than historic processes.

ENTERPRISE HUMAN RESOURCES SYSTEM

In order to secure the benefits of improved human resources management programs and to capture the data needed for workforce planning and organizational restructuring, DA has committed to building a Department-wide Human Resources Enterprise System (HRES). The system holds great promise to unify the manner in which agencies process personnel transactions, provide more timely and consistent workforce information, and enable improved management of USDA's Human Capital. In our commitment to building a Department-wide HRES, DA is actively engaged in the Department-wide implementation and deployment of Automated Recruitment Web-based Systems to streamline the hiring process to meet the 45 day hiring model set forth by OPM in order to meet the requirements of the Recruitment One-Stop initiative under the Presidential Management Agenda for eGovernment. DA is actively participating in other OPM Presidential Management Agenda initiatives including the Human Resources Line of Business to fulfill the vision of an HR shared service center complete with common solutions to standardized HR business processes, and the implementation of the Enterprise Human Resources Integration suite of products. DA is also collaborating with mission areas and staff agencies on the feasibility of a Department-wide web-based Worker's Compensation system with a direct link to the Department of Labor in an effort to meet the requirements of the President's "Safety, Health and Return to Work" initiative.

GOVERNMENT ETHICS PROGRAM

The Office of Ethics succeeded in reviewing virtually all of the nearly 1,000 financial disclosure reports submitted by USDA officials in a timely manner. We have

implemented a web-based ethics training program that is used throughout the Department and in several Executive Branch organizations outside USDA. The majority of these training modules were migrated to AgLearn in fiscal year 2005. The Office of Ethics has developed an Ethics Orientation module for new USDA employees. The module is in a final testing phase and will be available in 2006. Also in final stages of testing is a self-service “walk through” guide to post-employment. More than 98 percent of the USDA employees required to submit financial disclosure reports completed ethics training in 2005.

PROCUREMENT POLICY

DA continues to lead the implementation of the Integrated Acquisition System (IAS). IAS is a web-based commercial off-the-shelf procurement and contract management generation and administration tool. It provides USDA with an enterprise solution for requisitioning, automated workflow, commitment accounting, funds control, and contract closeout functions used by the procurement and financial communities. Additionally, it provides real-time interface to the Department's financial system in accordance with the Joint Financial Management Improvement Program. IAS supports e-Government legislation, Presidential Initiatives to improve the operation of government, and complements the Federal Integrated Acquisition Environment. Several USDA agencies have been implemented and we are working toward full deployment across the Department by the end of fiscal year 2006.

USE OF BIOFUELS

The Department's continuing commitment to biofuels resulted in an estimated 207,600 gasoline gallon equivalents of biofuels (ethanol and biodiesel) used in USDA fleet vehicles, equipment, and facilities in fiscal year 2005 an increase of 72 percent over fiscal year 2004. Use of E85 ethanol fuel reached a new high in fiscal year 2005, to 179,625 gallons. This continued increase is a successful result of the E85 promotion program USDA initiated in fiscal year 2003, which included awareness training for Departmental headquarters and field fleet managers, providing them with E85 bumper stickers and other materials for use with USDA's ethanol-gasoline flexible fuel vehicles. USDA's flex-fuel E85 fleet inventory grew from 3,079 vehicles in fiscal year 2004 to 3,267 vehicles in fiscal year 2005. In fiscal year 2006, USDA is focusing on further increasing the use of B20 biodiesel and E85 ethanol as a prime strategy to meet the new alternative fuel use requirements of the Energy Policy Act of 2005 and the Executive Order 13149 of 20 percent petroleum reduction target for fleet vehicles.

FEDERAL BIOBASED PRODUCTS PROCUREMENT PREFERENCE PROGRAM

Section 9002 of the 2002 Farm Security and Rural Investment Act of 2002 (Public Law 107-171) directed the USDA to develop and implement a procurement preference program for biobased products. DA is leading the design, development, testing, and USDA implementation of what is now known as the Federal Biobased Product Preferred Procurement Program (FB4P). The FB4P will consist of:

- a biobased product preference program; and
- a biobased product procurement promotion program. Section 9002 of the 2002 Farm Security and Rural Investment Act of 2002 (Farm Bill) (Public Law 107-171) mandates Federal agencies to have a biobased product procurement preference program in place within 1 year after guidelines pertaining to procurement preferences for these products are published. These guidelines were published as a final rule in the Federal Register on January 11, 2005.

On January 10, 2006, USDA completed its Affirmative Procurement Program (APP) and posted it on its biobased website at <http://www.usda.gov/biobased>. The APP formally establishes USDA's Biobased Procurement Program for USDA-designated biobased items and provides agency-wide guidance for implementing an effective program. USDA's Biobased APP ensures items composed of biobased material will be purchased to the maximum extent practicable and meets the requirements of the final rule. The APP will also serve as the government-wide model to achieve the Section 9002 goals of the 2002 Farm Bill. Early in fiscal year 2006, USDA conducted a 3-month Biobased Pilot Project designed to test biobased/biodegradable food-service products such as cups, plates, cutlery, etc. During the pilot, over 33,000 patrons were served and cafeteria operations and services were not adversely impacted by the change to biobased products. The full-cycle approach of the pilot project: (1) replaced 100 percent of current Styrofoam and plastic food service items with biobased products wherever possible; (2) provided training to patrons on how to dispose of waste to prevent contamination with non-compostables and to compost the cafeteria residuals; (3) diverted cafeteria-derived organic recyclables

from landfill disposal to a beneficial horticultural use; and (4) resulted in the production of over 44 cubic yards of compost to be used in the Whitten Building gardens. Overall USDA considers the pilot a success and will continue to promote biobased products in the future.

REAL PROPERTY ASSET MANAGEMENT

USDA is proactively implementing Executive Order 13327, Federal Real Property Asset Management, which establishes a Presidential Management Initiative promoting the efficient and economical use of America's real property assets to assure management accountability for implementing Federal real property management reforms. USDA will focus on six major areas as the foundation for future efforts and compliance: real property management organization; real property planning and budgeting activities; utilization of inventory data in decision-making; performance measures and continuous monitoring asset inspection and condition index; and divesting ourselves of un-needed real property.

In fiscal year 2004, USDA designated a Senior Real Property Officer (SRPO) to oversee implementation of this Executive Order. The SRPO established a Real Property Council within USDA to assist with this effort. By the end of fiscal year 2006, USDA will have an Asset Management Plan, incorporating final guidance provided by the Federal Real Property Council, in place and will have established a strategy for implementation of the performance measurements to achieve the goals and objectives outlined in the Asset Management Plan. USDA's goal is to achieve a yellow rating on the President's Management Agenda Asset Management scorecard in fiscal year 2006.

USDA initiated a major corporate project to implement the first department-wide real property automated information system to improve management controls and accountability. This new department-wide system, Corporate Property Automated Information System (CPAIS), which was implemented in May 2004, provides an integrated solution, which standardizes USDA real property accounting (subsidiary ledger to the Foundation Financial Information System (FFIS)), real property business processes and provides management of the entire real property portfolio including owned real property, commercial leases, and General Services Administration assignments. In fiscal year 2006 and 2007, USDA will integrate personal property into CPAIS, thereby eliminating old legacy systems, and managing its assets to make maximum use of resources provided.

EXCESS PERSONAL PROPERTY PROGRAM

Section 923 of the Federal Agriculture Improvement and Reform Act of 1996, authorized the Secretary of Agriculture to transfer excess Federal personal property to any of the 1994 Tribal Institutions, Hispanic-Serving Institutions, and the 1890 colleges and universities, including Tuskegee University. In fiscal year 2005, USDA transferred \$2.3 million worth of excess personal property under the program, bringing the total to greater than \$20.9 million since the program began in fiscal year 1998. This program provides much needed property and equipment to institutions that otherwise would not be able to acquire property due to limited funds and will improve the institutions' capability in the areas of research, education, and technical and scientific activities.

SMALL & DISADVANTAGED BUSINESS UTILIZATION

USDA is a leader in the Federal Government in achieving small business program contracting goals. The Office of Small and Disadvantaged Business Utilization (OSDBU) utilizes an active outreach program to identify available small, small and disadvantaged, Historically Underutilized Business Zone (HUB Zone), service disabled veteran-owned, and women-owned businesses; to expand the number of small businesses securing contracts with USDA; to identify and provide assistance to underserved areas; and to identify and eliminate contracting barriers that prevent or restrict small business access to USDA procurements. During fiscal year 2005, OSDBU was the winner of two prestigious awards from the Small Business Administration: the Federal Gold Star Award and the Agency Goaling Award of Excellence. These awards recognize the exemplary performance of USDA agencies for attaining or exceeding the federally mandated small business goals that grow small business capacity and create jobs.

OSDBU is aggressively taking steps to significantly increase contracting and sub-contracting opportunities for Service Disabled Veteran-Owned Small Businesses and to carry out the requirements of Executive Order 13360 and Public Law 108-183—The Veterans Benefits Act of 2003. OSDBU is tracking the Service Disabled Veteran-Owned Small Business goal achievement for all USDA agencies. OSDBU con-

tinues to work with USDA agencies to secure contracts for Service Disabled Veteran-Owned Small Businesses.

In addition, OSDBU continues its rural small business outreach efforts to increase small business opportunities and create jobs in rural areas. Small firms are paired in mentor-protégé relationships with experienced Federal contractors to engage in USDA and other Federal Departments' contracting opportunities. OSDBU reviews contract opportunities to locate those suitable for directing to Tribal 8(a)s and other categories of small firms in rural America.

Another important aspect of OSDBU's work is our support for people with severe disabilities working through the Javits-Wagner-O'Day (JWOD) program. The JWOD Program helps to meet Federal procurement needs while generating employment and providing training opportunities for Americans who are blind or have other severe disabilities. USDA's demand for JWOD products has grown over the past several years to include packaged food products that support USDA food programs inc

HAZARDOUS MATERIALS MANAGEMENT

The purpose of the Hazardous Materials Management Program is to clean up and restore USDA-managed lands, and sites contaminated from past USDA activities; to enhance USDA's environmental performance in current operations; and to participate in Federal, State, and local efforts to plan for and respond to hazardous materials incidents. Since the Hazardous Materials Management Appropriation was established in 1988, USDA has cleaned up over 2,250 sites. Many of these were underground storage tanks that did not meet current standards. On average, the program is completing about 30 site cleanups a year through a combination of Hazardous Materials Management Appropriation and agency funding.

We currently estimate that uncontrolled releases of hazardous substances have occurred or may have occurred at more than 2,000 additional sites. Many of these contaminated sites threaten human health or the environment, and make valuable resources unavailable for public use. Addressing these sites will, in general, be more complex and costly than those we have cleaned up so far.

Program activities are aligned with USDA's Strategic Goal 6: to protect and enhance the Nation's natural resource base and environment. In addition, the program directly supports three USDA Objectives: (1) homeland security, through efforts to improve hazardous materials management and by representing USDA on the National Response Team for oil spills and hazardous material releases, and participating in the National Response Plan's Emergency Support Function 10 and 11, (2) management of natural resources, and (3) the quality of life in rural America by coordinating USDA efforts for the President's Brownfields program. This year our performance focus will shift from the number of cleanups we complete to the significance of the public benefits the cleanups create and the impact they have in relation to USDA and agency missions, goals, and program initiatives. The fiscal year 2007 budget seeks \$12.0 million to continue this program.

CONCLUSION

Although administrative programs such as those conducted within DA are frequently not thought of by themselves usually considered, high visibility or high priority, Mission-area programs, cannot effectively meet the expectations of the Congress, the Administration or the public without a stable base of good administrative systems, policies and support functions. DA is committed to achieving and maintaining a high quality of mission program support and asks your assistance in this effort. Mr. Chairman and members of the Subcommittee, this concludes my statement on the Departmental Administration Budget for fiscal year 2007.

PREPARED STATEMENT OF NANCY C. PELLETT, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, FARM CREDIT ADMINISTRATION

Mr. Chairman, Members of the Subcommittee, I am Nancy C. Pellett, Chairman and Chief Executive Officer of the Farm Credit Administration (FCA or Agency). On behalf of my colleagues on the FCA Board, Doug Flory of Virginia and Dallas Tonsager of South Dakota, and all the dedicated men and women of the Farm Credit Administration, I am pleased and honored to provide this testimony to the Subcommittee.

At the FCA we are focused on ensuring a dependable source of credit and related services for agriculture and rural America as we maintain a flexible regulatory environment that allows the cooperative Farm Credit System to meet the credit needs of all eligible borrowers while ensuring safety and soundness.

I would like to thank the subcommittee staff for its ongoing assistance during the budget process, and before I discuss the role and responsibility of the Farm Credit Administration and our budget request, I would respectfully bring to the Subcommittee's attention that the FCA's administrative expenses are paid for by the institutions that we regulate and examine. Said differently, the FCA does not receive a Federal appropriation, but is funded through annual assessments on Farm Credit System (System) institutions and the Federal Agricultural Mortgage Corporation (Farmer Mac). We fully support the proposed 2007 Budget Submission of the President.

Mr. Chairman and Members of the Subcommittee, I will highlight the FCA's accomplishments during the past year; report to you briefly on the System, as well as Farmer Mac—the other Government-Sponsored Enterprise (GSE) that we regulate which serves agricultural lenders in the secondary market; and, in conclusion, I will present our fiscal year 2007 budget request.

MISSION OF THE FARM CREDIT ADMINISTRATION

As directed by Congress, the FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America.

The Agency accomplishes its mission in two important ways. First, FCA ensures that the System and Farmer Mac remain safe and sound and that they comply with the applicable law and regulations. Specifically, our risk-based examinations and supervisory strategies focus on an institution's financial condition and any material existing or potential risk, as well as its board's and management's abilities to direct its operations. Supervisory strategies also evaluate each institution's efforts to serve all eligible borrowers, including young, beginning, and small farmers and ranchers.

Secondly, the FCA approves corporate charter changes, and researches, develops, and adopts regulations, policies, and other guidelines that govern how System institutions conduct their business and interact with their customers. If a System institution violates a law or regulation, or operates in an unsafe or unsound manner, we can use our enforcement authorities to ensure appropriate corrective action.

We constantly strive to maintain a regulatory environment that enables System institutions and Farmer Mac to remain financially strong so they can meet the changing demands of agriculture and rural America for credit and related services. In doing so, our primary focus is to ensure the long-term safety and soundness of the two GSEs that serve rural America and to develop rules and policies that reflect changing market forces.

Finally, the FCA Board is committed to maintaining the public's trust and confidence in the Agency, the System, and Farmer Mac. The public is invited to attend the FCA Board Meetings, and we are committed to following the requirements of the Government in the Sunshine Act.

The public can read on our Web site the comments received on current proposed rules and notices published in the Federal Register. Comments on regulations can also be submitted to the Agency electronically or through regular mail.

FISCAL YEAR 2005 ACCOMPLISHMENTS

In 2005 we continued our efforts to achieve our Agency strategic goals through: (1) responsible regulation and public policy, and (2) effective risk identification and corrective action. The FCA has worked hard to maintain the System's safety and soundness and is continually exploring options to reduce regulatory burden on the FCS and ensure that System institutions provide agriculture and rural America continuous access to credit and related services.

To ensure that the FCA is appropriately focused on economic and agricultural issues that are relevant to rural America, as well as to ensure that the Agency is operating in an effective and efficient manner, the FCA contracted with an independent consulting firm to conduct an extensive strategic study of the Agency. Of particular interest was the need to identify potential challenges that may arise in agriculture, the Farm Credit System, or the marketplace over the next 5 to 7 years and to realign the Agency where appropriate to enable it to proactively address these issues. The major outcomes of the study have been a realignment of the examination structure, a new team-oriented approach in the regulatory development office, and a merging of the major support functions of the Agency including technology, financial, and human resource functions.

EXAMINATION PROGRAMS FOR FCS BANKS AND ASSOCIATIONS

One of the Agency's highest priorities is the development and implementation of efficient and effective risk-based examination and oversight programs that meet the high standards and expectations of the Congress, investors in System debt obliga-

tions, the farmers, ranchers, and cooperatives that own System banks and associations, and the public at large. Our examination programs and practices have worked well over the years and have contributed to the present safe and sound overall condition of the System, but the results of our strategic study are clear—we must evolve and prepare for the increasingly complex nature of agricultural and rural America lending and financing. The FCA Board adopted a new policy statement reaffirming its commitment to risk-based supervision. This policy statement directs the maintenance of a “risk-based” approach to oversight and examination for System institutions, which will maximize our effectiveness and allow us to strategically address the System’s safety and soundness and compliance with laws and regulations.

We have taken initial steps to implement the new policy statement through realignment of our organizational structure. We believe the changes in the System coupled with pending retirements and normal attrition of staff necessitates a flexible organizational structure but also provides a unique opportunity to prepare for the future. Toward this goal, the Agency’s Office of Examination (OE) is shifting its regionally based field office structure to division examination teams that are organized on a national basis. In the new structure, existing office locations will be retained, but the examination programs will be managed nationally to better match examiner skills to risks presented by institutions.

On a national level, we actively monitor risks that may affect groups of System institutions or even the entire System, including risks that may arise from the agricultural, financial, and economic environment in which the System institutions operate. Our job is not to forecast specific events, but to understand the environment so that we can take steps in advance to help System institutions take pre-emptive actions before adverse trends develop.

The FCA uses a risk-based examination and supervision program to differentiate the risks and special oversight needs of FCS institutions. We set the scope and frequency of each examination based on the level of risk in the institution. We continuously identify, evaluate, and proactively address these risks. The Farm Credit Act requires the Agency to examine each FCS institution at least once every 18 months. However, we monitor the performance of all FCS institutions on an ongoing basis and conduct interim examination activities as risk and circumstances warrant in each institution.

As part of our ongoing efforts, we monitor each institution’s risk profile. The Financial Institution Rating System (FIRS) is the primary risk delegation used by the Agency to indicate the safety and soundness threats in an institution. The rating system is similar to other Federal financial regulators’ CAMELS (capital, assets, management, earnings, liquidity, and sensitivity) rating scale. FIRS ratings range from 1 (for a sound institution) to 5 (for an institution that is likely to fail). Beginning in 2006, in addition to FIRS, examiners will use a new set of assessment criteria that focus on risk areas including credit, interest rate, liquidity, operational, compliance, strategic, and reputation.

Throughout fiscal year 2005, FIRS ratings as a whole continued to reflect the stable financial condition of the FCS. The overall trend in FIRS ratings continued to be positive, with nearly 4 times as many 1-rated institutions (79 percent) as 2-rated institutions (21 percent). Significantly, there were no 3-, 4-, or 5-rated institutions. In addition, no FCS institutions were under enforcement action at the end of fiscal year 2005 or during the previous 3 years and no FCS institutions are in receivership. The overall financial strength maintained by the System reduces the risk to investors in FCS debt, the Farm Credit System Insurance Corporation (FCSIC), and FCS institution stockholders.

Risks are inherent in lending, and managing risks associated with a single sector of the economy, such as agriculture, is particularly challenging for lenders. If the FCA discovers unwarranted risks, it works with an institution’s board and management to establish a plan of action to mitigate or eliminate those risks. Appropriate actions may include reducing risk exposures, diversifying its portfolio of risks, increasing capital, or strengthening risk management. In those cases where the board and management are unable or unwilling to take appropriate action, the Agency has the authority to take a variety of actions including supervisory letters, written agreements, and cease and desist orders. In extreme cases, we also can remove management, issue civil money penalties, and/or liquidate the institution.

During fiscal year 2005, FCA also performed various examination, training, and other services for the Small Business Administration (SBA), the United States Department of Agriculture (USDA), FCSIC, and the National Cooperative Bank (NCB). Each of these entities reimburses the FCA for its services. The safety and soundness of the System and Farmer Mac remain our primary objectives. However, we believe the continuing use of FCA examination resources by other agencies is a positive reflection on the expertise of FCA examiners and serves to broaden their examination

skills while increasing job satisfaction and employee retention. It also helps us defray some of the costs of our operations while providing a valuable service.

REGULATORY ACTIVITY

Congress has given the FCA Board statutory authority to establish policy and prescribe regulations necessary to ensure that FCS institutions comply with the law and operate in a safe and sound manner. The Agency's regulatory philosophy articulates our commitment to establishing a flexible regulatory environment that enables the System to offer high quality, reasonably priced credit to farmers and ranchers, their cooperatives, rural residents, and other entities on which farming operations depend. This translates into developing balanced, well-reasoned, flexible, and legally sound regulations. We strive to ensure that the benefits of regulations outweigh the costs; to maintain the System's relevance in the marketplace and rural America; and ensure that FCA's policy actions encourage member-borrowers to participate in the management, control, and ownership of their GSE institutions.

For 2005 and early 2006, the Agency's regulatory and policy projects included the following:

- A rule to allow a qualified lender to obtain a waiver of borrower rights when a loan is part of a loan syndication with non-System lenders that are otherwise not required by the Farm Credit Act to provide borrower rights.
- A capital adequacy preferred stock rule to amend the Agency's preferred stock regulations, which are designed to ensure the stability and quality of capital at System institutions, to ensure the fair and equitable treatment of all shareholders of FCS preferred stock, and to minimize the potential for insider abuse.
- A capital adequacy risk weighting final rule to more closely match the Agency's risk-based capital requirements with FCS institutions' credit exposures. The changes make the FCA's regulatory capital treatment more consistent with that of the other financial regulatory agencies and address financial structures and transactions developed by the market.
- A liquidity rule to amend the Agency's previous liquidity reserve requirements for System banks. The purpose of the rule is to ensure that System banks have adequate liquidity in the case of market disruptions or other extraordinary situations, as well as to improve the flexibility of Farm Credit banks to meet liquidity reserve requirements and provide credit in all economic conditions.
- A receivership repudiation final rule, specifying the conditions under which the FCSIC will not attempt to pull back specific assets into the conservatorship or receivership estate if a transaction meets certain conditions.
- A booklet issued by the Agency to all System institutions providing guidance on how they can utilize the Tobacco Buyout Program to meet their borrowers' financial needs by offering them the option to immediately receive Tobacco Buyout contract payments.
- A booklet on bank director compensation limits that makes a one-time adjustment to the bank director compensation limit to allow System banks to pay fair and reasonable director compensation for 2006.
- A final rule on governance of FCS institutions providing for enhanced oversight of management and operations by strengthening the independence of System institution boards and incorporating best governance practices. The rule also supports borrowers' participation in the management, control, and ownership of their respective FCS institutions.

In addition, relative to Farmer Mac, the Agency finalized a rule governing its investments and setting a liquidity standard and has undertaken a proposed regulatory project to update the Farmer Mac Risk-Based Capital Stress Test. The regulatory project is intended to incorporate a more accurate reflection of risk in the model in order to improve the model's output—Farmer Mac's regulatory minimum capital level.

The Agency has also adopted an ambitious regulatory and policy agenda for 2006 and anticipates pursuing a number of issues, including:

- Evaluating regulatory options for assessment and apportionment of FCA administrative expenses.
- Continuing a pilot program that allows System institutions to make investments that further support their mission of providing credit to agriculture and rural America.
- Continuing to review current regulatory requirements governing eligibility and scope of lending to determine if these requirements are reasonable in light of agriculture's changing landscape. Agency staff will identify issues and explore options for the Board's consideration.

- Evaluating comments on a proposed termination rule that would amend and update the existing regulations that govern the termination of System status. Issues such as costs, timing, communication, voter quorums, tax implications, directors' rights, equitable treatment of dissenting stockholders, and overall effect on the System are considered in the proposal.
- Considering regulatory changes for disclosure and reporting requirements for System institutions. We approved a proposed rule that is designed to improve the transparency of public disclosures, strengthen board and management accountability and auditor independence, and increase shareholder and investor confidence in the System. The proposed changes reflect the cooperative nature and unique structure of the System, while incorporating the best industry practices of public companies and recent changes in the reporting requirements of other Federal financial regulators, provisions in the Sarbanes-Oxley Act of 2002, and the Securities and Exchange Commission regulations.
- Continuing the Agency's effort to streamline its regulations so the System can more efficiently fulfill its mission to provide a dependable source of credit to America's farmers, ranchers, aquatic producers, cooperatives, and rural residents. We approved a proposed rule to be published in March 2006 to reduce regulatory burden on System institutions by repealing, clarifying or updating current regulations.
- Continuing a study on loan syndications and assignment markets that will help determine whether the Agency's approach to these issues should be modified.

CORPORATE ACTIVITIES

The pace of System restructuring remained slow in fiscal year 2005. The number of corporate applications submitted for FCA Board review and approval during fiscal year 2005 declined to four applications, compared with seven applications the prior year. As of January 1, 2006, there were 109 Farm Credit System institutions, including 96 associations, five banks, and eight service corporations and special purpose entities. Through mergers, the number of FCS associations has declined by 28 percent over the previous 5 years (37 associations) and the number of FCS banks has dropped by 29 percent (2 banks). Generally, these mergers have brought larger, more cost efficient, and better capitalized institutions with a broader, more diversified asset base, both by geography and commodity. The Agency estimates that within the next 5 years, the process of expansions and mergers will result in an increase in the size and complexity of System entities, with the average association exceeding \$1 billion in assets.

STRATEGIC PLANNING AND PERFORMANCE PLANS

The FCA Strategic Plan for fiscal years 2004 through 2009 guides the Agency's long range efforts. The FCA Board adopted the strategic plan unanimously and believes that it is vital to achieving the Agency's mission and goals by providing all staff with a clear focus and direction as well as prioritizing the issues, functions, and programs that require an investment of resources.

During fiscal year 2005, our work focused on implementing initiatives to accomplish FCA's three strategic goals and on measuring the Agency's performance. Goal 1 is our public mission of ensuring that the FCS and Farmer Mac fulfill their public mission for agriculture and rural areas. Goal 2 is evaluating risk and providing timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac. Goal 3 is implementing the President's Management Agenda. In order to meet the goals of the strategic plan, the Agency continues to comply with the Government Performance and Results Act of 1993 by integrating the budgeting process into the planning and performance management process. We link performance goals with resource needs, so that we are in a better position to use the strategic plan to align the organization and budget structures with our mission, goals, and objectives. Other Activities and Accomplishments

I would also like to note a few other Agency activities and accomplishments for 2005. First, an audit of the FCA's fiscal year 2005 financial statements has been completed and I am pleased to report that—for the 12 year in a row—we have received an unqualified audit opinion.

Second, for the fifth consecutive year, FCA's annual Federal Information System Management Act review reported no significant weaknesses in our information security program. We have, in the past year, taken several measures to strengthen our information security program. These measures include ensuring secure transmission of sensitive information over the Internet by providing our staff with an option to encrypt sensitive e-mail sent over the Internet. We also provided our computer users

the capability to encrypt a portion of their portable storage devices for protection of sensitive stored information.

Third, we continue to improve our ability to ensure continuity of our operations through refining our business continuity plan and through testing our disaster recovery plan. We also focused on business continuity and disaster recovery planning with the Farm Credit System through a series of visits to FCS banks and data centers. During these visits we encouraged membership in the Financial Services Information Sharing and Analysis Center (FS/ISAC) and sponsored FCS institutions' membership in the Government Emergency Telecommunications System (GETS). The FS/ISAC is an organization that provides information security and threat assessment information across the financial sector. The GETS provides priority access to landline telecommunications to support response in the event of an emergency.

Fourth, we continue to develop our e-government capabilities. Our accomplishments in the area of e-government include:

- A redesign of our Web site to be more user-friendly and more easily navigable.
- Implementation of the use of electronic signature to facilitate the approval process among geographically—dispersed staff.
- Enhancement of the ability of Farm Credit System institutions to easily and securely transfer examination-related information to FCA examination staff.

During fiscal year 2005 we:

- Implemented a machine-readable privacy policy on our Web site.
- Enhanced the FCA Exam Manual on our Web site by adding a section on Information Technology.
- Established a process for collecting survey data from FCS institutions on our Web site.
- Established a process to begin sending booklets and informational memorandums via electronic means to System institutions.

CONDITION OF THE FARM CREDIT SYSTEM

I will now turn to the condition of the Farm Credit System. I am pleased to report that the System's overall condition and performance was solid and steady during 2005. Capital levels continued to increase, mostly through retained earnings and stock sales. Asset quality remained high, loan volume growth was strong, and favorable credit quality enabled the System to achieve \$2.096 billion in earnings for the 12 months ended December 31, 2005. By and large, the System has knowledgeable and experienced managers at all levels.

The FCS is fundamentally sound in all material respects, and it continues to be a financially strong, reliable source of affordable credit to agriculture and rural America. The quality of loan assets, risk-bearing capacity, stable earnings, and capital levels collectively reflect a healthy Farm Credit System.

Loan volume continued to grow during 2005 while loan quality remained high. Gross loans increased by 10.3 percent to \$106.3 billion. The level of nonperforming loans, including nonaccrual loans, decreased to 0.56 percent of gross loans. Delinquencies also remained minimal.

Since 1993, the System has steadily earned more than \$1 billion each year. This has resulted in a capital position that is at an all-time high. We believe this level of capital should enable the System to remain a viable and dependable lender to agriculture and rural America during any near term downturns in the agricultural economy.

Despite an increase in total capital, the amount of total capital as a percentage of total assets declined from 17.1 percent to 16.3 percent as of December 31, 2005. This was due to the substantial increase in loan volume. However, despite the increased loan volume, all institutions continued to exceed their minimum regulatory capital requirements, remaining well-capitalized. Permanent capital ratios at System banks and associations ranged from a low of 11.1 percent to a high of 28.9 percent—all well above the 7.0 percent minimum regulatory capital requirement.

While the overall condition of the System continued to improve during 2005 and remains strong, I also must offer a cautionary note regarding several risks that could adversely affect borrower repayment capacity in the future:

- Two major cost risks—high and volatile energy costs and rising interest rates—reduce borrower incomes and increase lender credit risks.
- Government payments to agricultural producers have accounted for between 16 percent and 40 percent of net cash farm income in recent years. Reductions in farm subsidy payments could have a significant impact on farm incomes and on farmland values, especially in areas dependent on farm program crops.

- Outbreaks of animal and plant diseases, especially Avian Influenza, and concerns over possible terrorist attacks on the food supply could increase costs and reduce access to export markets.
- The structure of agriculture and rural America is changing in many ways and thus so is the nature of the System's market place. While the System's financial health is not threatened, it will be challenged as it adjusts to serving the changing needs of customers whose livelihood is increasingly dependent on the off-farm economy.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

The FCA also has oversight, examination, and regulatory responsibility for the Federal Agricultural Mortgage Corporation, which is commonly known as Farmer Mac. Congress established Farmer Mac in 1988 to provide secondary market arrangements for agricultural mortgage and rural home loans. In this capacity, Farmer Mac creates and guarantees securities and other secondary market products that are backed by mortgages on farms and rural homes. Through a separate office required by statute (Office of Secondary Market Oversight), the Agency examines, regulates and monitors Farmer Mac's disclosures, financial condition, and operations on an ongoing basis and provides periodic reports to Congress.

Like the Farm Credit System, Farmer Mac is a Government-Sponsored Enterprise devoted to agriculture and rural America. The FCA and the financial markets recognize Farmer Mac as a separate GSE from the System's banks and associations. Farmer Mac is not subject to any intra-System agreements or to the joint and several liability of the FCS banks, nor does the Farm Credit System Insurance Fund back Farmer Mac's securities. However, by statute, in extreme circumstances Farmer Mac may issue obligations to the U.S. Treasury Department to fulfill the guarantee obligations of Farmer Mac Guaranteed Securities.

The majority of Farmer Mac's common stock is publicly traded on the New York Stock Exchange. (In contrast, the cooperative Farm Credit System institutions are owned by their member-borrowers and their common stock is not publicly traded.) Accordingly, Farmer Mac is subject to certain Securities and Exchange Commission regulatory requirements and must file comprehensive disclosures that are available to its shareholders and the general public.

Generally, secondary market GSEs, including Farmer Mac, operate at lower capital ratios than primary market lenders in recognition of differences in their risk profiles, as their business is targeted to specific types and quality of loans. Accordingly, regulating and monitoring Farmer Mac's capital and risk management are central components of FCA's oversight activities.

In conclusion, FCA is proud of its efforts and accomplishments in promoting a constructive and dependable source of credit to farmers, ranchers, and their cooperatives. We will remain vigilant in our efforts to ensure that the Farm Credit System and Farmer Mac remain financially strong and focused on serving agriculture and rural America.

FISCAL YEAR 2007 BUDGET REQUEST

Earlier this fiscal year, the Agency submitted a proposed total budget request of \$45,500,000 for fiscal year 2007, which is the same as our fiscal year 2006 total budget request. The Agency's proposed budget includes an assessment on System institutions for fiscal year 2007 of \$40,500,000, the same as the fiscal year 2006 assessment. The total amount of assessments collected from the FCS and Farmer Mac with carryover funds equals \$44,250,000. Since approximately 83 percent of the Agency's budget goes for salaries, wages, and related costs, almost all of the total budget amount will be used for these purposes.

While the budget presented to you today is our best estimate of our future needs, it is just that—an estimate. Agriculture and rural America are undergoing rapid change, as is the Farm Credit System. It is such changes, along with administrative challenges, such as recruiting and maintaining a well-trained and motivated workforce, that the Farm Credit Administration is striving to keep up with. We appreciate the committee's past assistance and we ask for your continued help in the future.

It is our intent to stay within the constraints of our fiscal year 2007 budget as presented and we continue our efforts to be good stewards of the resources entrusted to us in order to meet our responsibilities. The Agency has worked hard to hold down the assessment to the System for our operations, and I believe we have achieved that objective over the past several years. Incidentally, the cost of FCA's operations to System borrowers is approximately 2.6 basis points, or about 2.6 cents for every \$100 of assets, the lowest relative cost to the FCS in decades. The FCS

is financially healthy and is poised to serve agriculture and rural America for years to come.

While we are proud of our record and accomplishments, I assure you that the Agency will continue its commitment to excellence, effectiveness, and cost efficiency and remain focused on our mission of ensuring a safe, sound and dependable source of credit for agriculture and rural America.

On behalf of my colleagues on the FCA Board and the Agency, this concludes my statement and I thank you for the opportunity to share this information.

PREPARED STATEMENT OF ROGER J. KLURFELD, NATIONAL APPEALS DIVISION

INTRODUCTION

The National Appeals Division (NAD) was established by the Secretary of Agriculture pursuant to the Reorganization Act of 1994. The act consolidated the appellate functions and staffs of several USDA agencies under a single administrative appeals organization. NAD appeals involve program decisions of the Commodity Credit Corporation, the Farm Service Agency, the Risk Management Agency, the Natural Resources Conservation Service, and Rural Development agencies. In States within the jurisdiction of the United States Court of Appeals for the Eighth Circuit, NAD Hearing Officers adjudicate and the Director makes final determinations on applications for fees under the Equal Access to Justice Act (EAJA). NAD is headquartered in Alexandria, Virginia, and has regional offices located in Indianapolis, Indiana; Memphis, Tennessee; and Lakewood, Colorado. NAD's staff of 108 includes 64 Hearing and Appeals Officers.

MISSION

NAD's mission is to conduct evidentiary administrative appeals hearings and reviews arising out of program decisions of certain USDA agencies. Our strategic goal is to conduct independent evidentiary hearings and issue timely and well-reasoned determinations that correctly apply USDA laws and regulations. NAD's mission is statutorily specific, but its operation is dynamic and challenging, given the complexities of changing laws, regulations and policies affecting USDA program decisions.

NAD's budget request for fiscal year 2007 is \$14.8 million, which is \$416 thousand above the fiscal year 2006 appropriation. The increase is for increases in pay costs.

That concludes my statement, and I look forward to working with the Committee on the 2007 National Appeals Division budget.

PREPARED STATEMENT OF R. RONALD BOSECKER, ADMINISTRATOR, NATIONAL AGRICULTURAL STATISTICS SERVICE

Mr. Chairman and members of the Committee, I appreciate the opportunity to submit a statement for this Committee's consideration in support of the fiscal year 2007 budget request for the National Agricultural Statistics Service (NASS). This agency administers the U.S. agricultural statistics program, which began in USDA in 1863. Since 1997, NASS has conducted the U.S. Census of Agriculture, first collected by the Department of Commerce in 1840. Both programs are aligned with the basic mission of NASS to provide timely, accurate, and useful statistics in service to U.S. agriculture.

FISCAL YEAR 2007 BUDGET

The agency's fiscal year 2007 budget request is \$152.6 million. This is a net increase of \$13.3 million from the fiscal year 2006 adjusted appropriations. The fiscal year 2007 request includes programmatic increases to continue the restoration and modernization of the NASS core survey and estimation program (\$3.9 million), and to fund cyclical activities associated with preparing and conducting the Census of Agriculture (\$7.3 million).

AGRICULTURAL ESTIMATES

NASS statistical reports are critically important to assess the current supply and demand in agricultural commodities. They are also extremely valuable to producers, agribusinesses, farm organizations, commodity groups, economists, public officials, and others who use the data for decision-making. The statistics disseminated by NASS support fairness in markets where buyers and sellers have access to the same official statistics at the same pre-announced time. This prevents markets from being unduly influenced by "inside" information, which might unfairly affect market prices

for the gain of an individual market participant. The efficiency of commodity markets is enhanced by the free flow of information, which minimizes price fluctuations for U.S. producers. Statistical measures relating to the competitiveness of our Nation's agricultural industry have become increasingly important as producers rely more on world markets for their sales.

In fiscal year 2007, NASS is requesting an increase of \$3.9 million and 6 staff years to fund the continuation of the restoration and modernization of the NASS core survey and estimation program. This increase is directed to continuing the modernization of the core survey and estimation program for NASS to meet the needs of data users at professionally acceptable levels of precision for State, regional, and National estimates. Decisions affecting billions of dollars in the U.S. food and agricultural sectors are facilitated in both public and private venues through access to reliable statistical information. The USDA-NASS statistical program serves most agricultural commodity data needs in the United States, as well as supplies important economic, environmental, and demographic data that are used for policy that will impact the livelihood and quality of life of rural residents. Funding received in the fiscal year 2004 through fiscal year 2006 appropriations have been used to successfully improve the precision level from commodity surveys conducted by NASS for State, regional, and National estimates through sample size increases and better survey response. Funding requested in fiscal year 2007 promotes data quality by encouraging voluntary response through increased respondent awareness of market and policy reliance upon USDA-NASS statistical measures and by improving the data collection capabilities by local interviewers throughout the Nation.

CENSUS OF AGRICULTURE

NASS is currently preparing for the 2007 Census of Agriculture scheduled to be mailed to the Nation's farmers and ranchers in December 2007. The Census of Agriculture is taken every 5 years and provides comprehensive data at the national, State, and county level on the agricultural sector. The Census of Agriculture is the only source for this information on a local level, which is extremely important to the agricultural community. Detailed information at the county level helps agricultural organizations, suppliers, handlers, processors, and wholesalers and retailers better plan their operations. Demographic information supplied by the Census of Agriculture also provides a very valuable database for developing public policy for rural areas. The 2007 Census of Agriculture is the first time respondents have the option of reporting electronically through the Internet. It also includes improved coverage of American Indians and expanded data on organic agriculture. Many additional improvements are being implemented to enhance the data from this comprehensive data source. Census of Agriculture programs are also conducted in Puerto Rico, Guam, and the Commonwealth of the Northern Mariana Islands as part of the census cycle. Results from all of the censuses are made available on the NASS website.

NASS is requesting a cyclical increase of \$7.3 million and 10 staff-years for the Census of Agriculture. The total Census of Agriculture budget request is \$36.6 million. The available funding includes monies to continue preparations for the 2007 Census of Agriculture. The increase will be used to collect data to measure coverage of the census mail list, prepare census mail packages, and prepare for data collection activities in fiscal year 2008. This increase is comparable to a \$10.0 million increase required during the same period in the 2002 Census cycle.

MAJOR ACTIVITIES OF THE NATIONAL AGRICULTURAL STATISTICS SERVICE (NASS)

The ongoing expansion of global markets for U.S. goods and services continues to increase the need for modern and reliable statistical information. The periodic surveys and censuses conducted by NASS contribute significantly to economic decisions made by policymakers, agricultural producers, lenders, transporters, processors, wholesalers, retailers and, ultimately, consumers. Lack of relevant, timely, and accurate data contributes to wasteful inefficiencies throughout the entire production and marketing system.

The need for timely, accurate, and useful statistics on U.S. agriculture has been highlighted in recent years due to several natural disasters. The catastrophic hurricanes which moved through Florida during the end of 2004 heavily impacted the citrus industry. The degree of this impact was measured by NASS through a special November forecast of citrus production. Normal processes do not include a November forecast. The special forecast allowed for a timely unbiased assessment of the damage resulting from the hurricanes. Likewise, the discovery of Asian Soybean rust in the United States resulted in heightened speculation of how growers would react to the fast-spreading, yield-reducing disease. Data collected by NASS allowed

for an early assessment of farmer awareness of soybean rust and how its discovery would affect planting decisions for the 2005 crop. Results were published in the 2005 Prospective Plantings report.

NASS works cooperatively with each State Department of Agriculture throughout the year to provide commodity, environmental, economic, and demographic statistics for agriculture. This cooperative program, which began in 1917, has served the agricultural industry well and is recognized as an excellent model of successful State-Federal cooperation. Working together helps meet both State and national data needs while minimizing overall costs by consolidating staff and resources, eliminating duplication of effort, and reducing the reporting burden on the Nation's farm and ranch operators. The forty-six field offices in NASS, covering all fifty States and Puerto Rico, provide statistical information that serves national, State, and local data needs.

NASS has been a leader among Federal agencies in providing electronic access to information. All reports issued by NASS's Agricultural Statistics Board are made available to the public at a previously announced release time to ensure that everyone is given equal access to the information. All national statistical reports and data products, including graphics, are available on the Internet, as well as in printed form, at the time they are released. Customers are able to electronically subscribe to NASS reports and can download any of these reports in a format easily accessible by standard software. A summary of NASS and other USDA statistical data are produced annually in USDA's Agricultural Statistics, available on the Internet through the NASS home page, on CD-ROM disc, or in hard copy. All forty-six NASS field offices have home pages on the Internet, which provide access to special statistical reports and information on current local commodity conditions and production.

NASS's Statistical research program is conducted to improve methods and techniques used for collecting, processing, and disseminating agricultural data. This research is directed toward achieving higher quality census and survey data with less burden on respondents, producing more accurate and timely statistics for data users, and increasing the efficiency of the entire process. For example, NASS has developed and released a new interactive mapping tool on the Internet. Data users can now customize maps using various data items from the Census of Agriculture. The growing diversity and specialization of the Nation's farm operations have greatly complicated procedures for producing accurate agricultural statistics. Developing new sampling and survey methodology, expanding modes of data collection, including electronic data reporting, and exploiting computer intensive processing technology enables NASS to keep pace with an increasingly complex agricultural industry.

The primary activity of NASS is to provide reliable data for decision-making based on unbiased surveys each year, and the Census of Agriculture every 5 years, to meet the current data needs of the agricultural industry. Farmers, ranchers, and agribusinesses voluntarily respond to a series of nationwide surveys about crops, livestock, prices, chemical use and other agricultural activities each year. Periodic surveys are conducted during the growing season to measure the impact of weather, pests, and other factors on crop production. Many crop surveys are supplemented by actual field observations in which various plant counts and measurements are made.

Administrative data from other State and USDA agencies, as well as data on imports and exports, are thoroughly analyzed and utilized as appropriate. NASS prepares estimates for over 120 crops and 45 livestock items which are published annually in more than 400 separate reports.

Approximately 60 percent of the NASS staff are located in the 46 field offices; 21 of these offices are collocated with State Departments of Agriculture or land-grant universities. NASS field offices issue approximately 9,000 different reports each year and maintain Internet pages to electronically provide their State information to the public.

NASS has developed a broad environmental statistics program under the Department's water quality and food safety programs. Until 1991, there was a serious void in the availability of reliable pesticide usage data. Therefore, beginning in 1991 NASS cooperated with other USDA agencies, the Environmental Protection Agency (EPA), and the Food and Drug Administration, to implement comprehensive chemical usage surveys that collect data on certain crops in specified States. NASS data allows EPA to use actual chemical data from scientific surveys, rather than worst case scenarios, in the quantitative usage analysis for a chemical product's risk assessment. Beginning in fiscal year 1997, NASS also instituted survey programs to acquire more information on the post-harvest application of pesticides and other chemicals applied to commodities after leaving the farm. These programs have resulted in significant new chemical use data to help fill the void of reliable pesticide

usage data. Surveys conducted in cooperation with the Economic Research Service (ERS) collect detailed economic and farming practice information to analyze the productivity and the profitability of different levels of chemical use. American farms and ranches manage nearly half the land mass in the United States, underscoring the value of complete and accurate statistics on chemical use and farming practices to effectively address public concerns about the environmental effects of agricultural production.

NASS conducts a number of special surveys, as well as provides consulting services for many USDA agencies, other Federal or State agencies, universities, and agricultural organizations on a cost-reimbursable basis. Consulting services include assistance with survey methodology, questionnaire and sample design, information resource management, and statistical analysis. NASS has been very active in assisting USDA agencies in programs that monitor nutrition, food safety, environmental quality, and customer satisfaction. In cooperation with State Departments of Agriculture, land-grant universities, and industry groups, NASS conducted 151 special surveys in fiscal year 2005 covering a wide range of issues such as farm injury, nursery and horticulture, farm finance, fruits and nuts, vegetables, and cropping practices. All results from these reimbursable efforts are made publicly available.

NASS provides technical assistance and training to improve agricultural survey programs in other countries in cooperation with other government agencies on a cost-reimbursable basis. The NASS international program focuses on the developing and emerging market countries in Asia, Africa, Central and South America, and Eastern Europe. Accurate foreign country information is essential for the orderly marketing of U.S. farm products throughout the world. NASS works directly with countries by assisting in the application of modern statistical methodology, including sample survey techniques. This past year, NASS provided assistance to Armenia, Belize, Brazil, China, El Salvador, Georgia, Guatemala, Honduras, Mexico, Nicaragua, Panama, Russia, Sudan, and the Ukraine. In addition, NASS conducted training programs in the United States for 220 visitors representing 30 countries. These assistance and training activities promote better United States access to quality data from other countries.

NASS annually seeks input on improvements and priorities from the public through the Secretary of Agriculture's Advisory Committee on Agriculture Statistics, interaction with producers at major commodity meetings, data user meetings with representatives from agribusinesses and commodity groups, special briefings for agricultural leaders during the release of major reports, and through numerous individual contacts. As a result of these activities, the agency has made adjustments to its agricultural statistics program, published reports, and expanded electronic access capabilities to better meet the statistical needs of customers and stakeholders.

This concludes my statement, Mr. Chairman. Thank you for the opportunity to submit the statement for the record.

PREPARED STATEMENT OF CHARLES CHRISTOPHERSON, CHIEF FINANCIAL OFFICER,
OFFICE OF THE FINANCIAL OFFICER

Mr. Chairman and members of the Subcommittee, I am pleased to present the fiscal year 2007 budget request for the United States Department of Agriculture (USDA), Office of the Chief Financial Officer (OCFO) and the Department's Working Capital Fund (WCF).

My remarks today address:

- Results we have achieved recently;
- Results on which we are currently focused;—Our fiscal year 2007 budget request; and
- The Department of Agriculture's Working Capital Fund.

The Office of the Chief Financial Officer is responsible for the financial leadership of an enterprise, which if it were in the private sector would be one of the largest companies in the United States with almost \$95 billion in annual spending, almost 110,000 full time equivalents (Staff Years) and over \$132 billion in assets.

These responsibilities are fulfilled by a headquarters staff in Washington, DC, with accounting operations support provided by USDA's Controller Operations Division in New Orleans, Louisiana.

The National Finance Center (NFC), also located in New Orleans, provides payroll processing and related services for approximately 31 percent of the Federal civilian workforce in more than 130 government entities. In fiscal year 2005, the NFC processed \$32 billion in payroll for more than 565,000 Federal employees. NFC also services the Office of Personnel Management performing health benefit reconciliations and health care premium processing on a Government-wide level.

RESULTS ACHIEVED RECENTLY

In fiscal year 2005, OCFO continued to make substantial progress in improving financial management, financial information, and financial/corporate systems throughout USDA. OCFO also actively worked on government-wide financial management issues affecting USDA to ensure we could achieve substantive and sustainable results. Some of the significant results USDA achieved in financial management, financial systems and related areas in fiscal year 2005 include:

- Attained another clean financial audit opinion. Our ability to sustain this critical performance benchmark is powerful evidence of the Department's improved accountability, internal control and data integrity.
- This year Hurricane Katrina had a major impact on the NFC and OCFO functions located in the New Orleans area. Thanks to the well-practiced continuity of operations plan (COOP), NFC and the other OCFO operations in New Orleans were able to recover operations quickly and to meet commitments to their customers without interruption. Critical information technology services were recovered within 24 hours; other essential operations were recovered as planned over the next 10 days. We are most proud that NFC was able to pay 565,000 employees accurately and on time from their alternate locations. More noteworthy, NFC converted two new customers, Transportation Safety Administration and U.S. Coast Guard to its payroll system during the 2 weeks following the storm and paid these new payroll employees on time. The swiftness and accomplishment of the recovery is a tribute to the employees of the NFC and OCFO who deployed to remote locations, some leaving their families behind, worked extended hours and assumed non-traditional jobs to get the job done.
- The NFC and OCFO are now reconstituting operations back to the New Orleans location. Due to the personal impact on the employees' homes and the New Orleans infrastructure, the reconstituting is proving to be as difficult as the deployment. More than 96 percent of the 1,250 employees of the NFC and OCFO have returned to New Orleans with some 400 of the employees located in trailers in a trailer park or at their homes. The overall productivity of the New Orleans-based operations have been impacted by the loss of a large number of experienced employees due to separations and retirements (13-percent of the workforce has retired or separated after Katrina to work on their homes or relocate from the area). OCFO operations have also been impacted by (1) the Postal Service releasing mail from three different Katrina storage facilities which contain potentially thousands of undelivered invoices each; (the first warehouse was released in February 2006) and (2) the loss of knowledgeable employees from earlier reductions in force. The payroll and human resources serviced by the NFC has been impacted by a doubling in the volume of retirements and separation transactions of its customer base and the loss of knowledge through staff adjustments in repeated reduction-in-force actions in 2005. Although they have difficult personal lives, the New Orleans staff is determined to eliminate the workload backlog through extensive overtime. OCFO in Washington D.C. continues to assist the operation and believes that the backlog will be cured in the coming months.
- Met OMB interim and year-end accelerated deadlines for preparing the financial statements. Year-end statements were provided 45 days after the close of the fiscal year, that is, by November 15. USDA met these ambitious dates while sustaining data quality and provided USDA executives and program managers with financial results information more timely than ever before;
- Reduced existing material internal control weaknesses from 32, 4 years ago, to 2 existing deficiencies at the end of fiscal year 2004. Although one new material weakness was reported in the fiscal year 2005 Performance and Accountability Report, for a total of three remaining for fiscal year 2006, we continue to aggressively work to resolve the underlying internal control and system issues. We will continue to work diligently to eliminating material weaknesses;
- Improved quality assurance of financial data by continuing to focus on fixing "root causes" of data flow and accuracy problems. Regularly monitored a set of metrics to ensure data is timely and accurate and useful to USDA managers;
- Closed 102 of 164 audits in fiscal year 2005 as compared to 96 in fiscal year 2004, a 6 percent increase in audit closures;—Successfully consolidated and standardized departmental travel procedures and policies;
- Continued to monitor for travel card misuse, these efforts resulted in lowering the Department-wide individually billed accounts delinquency average of 4.68 percent in fiscal year 2004, to 4.06 percent in fiscal year 2005, representing a 13 percent improvement;

- During fiscal year 2005, the Forest Service submitted a competitive sourcing plan to OMB for approval. In addition, USDA completed 2 competitive sourcing studies with results estimated to avoid costs of \$8.1 million over a 5-year period with annualized amounts of over \$1.62 million.
- Implemented the real-time interface between the financial system and procurement system, integrating the financial and procurement systems for the first time and enhancing internal funds control and streamlining operations; and
- Enhanced through a technology modernization the data warehouse reporting to provide more timely and useable financial and performance information to USDA executives and managers to manage daily operations.

In addition to the above, during fiscal year 2005, USDA collected \$1.1 billion of delinquent debt, \$862 million through agencies using our internal tools and \$238 million through the Department of Treasury Administrative Offset Program and other Debt Collection Improvement Act (DCIA) techniques. Since 1996, annual collections of delinquent USDA debt using DCIA tools have increased more than 276.6 percent from \$63.2 million in fiscal year 1996 to \$238 million in fiscal year 2005. As of September 30, 2005, USDA had referred to the Treasury Offset Program 96 percent of the \$1.2 billion of eligible receivables and 97 percent of loans eligible for cross servicing compared to only 14 percent in 2001.

Results on which we are Currently Focused

We continue to be focused on delivering valuable results in fiscal year 2006 as a context for consideration of our fiscal year 2007 budget request. Three areas of focus are: internal control and management information; support and develop shared services to the Departments of the Federal Government; and the President's Management Agenda.

In the area of internal control and management information, we are committed to:

- Continuing to enhance USDA's system of internal controls and data integrity as reflected in sustaining in fiscal year 2006 USDA's unqualified "clean" opinions on the consolidated financial statements and component agency financial statements;
- Meeting OMB's interim and year-end deadlines for financial statement and the Performance and Accountability Report;
- Eliminating material weaknesses in internal controls and systems non-conformances with the requirements of the Federal Financial Management Improvement Act (FFMIA);
- Implementing an online USDA corporate financial and performance reporting, system that the Secretary of Agriculture and his senior executives will use to drive program results;
- Continuing to develop financial management and accounting operations leadership talent in-depth throughout all our agencies so as to enhance further USDA's culture of sound financial management and to sustain management results already achieved; and
- Expanding the use of data warehousing technology to improve data integrity and timely availability of financial and performance information to USDA's executives and managers for the management of their daily operations.

To support and develop shared services to the Departments of the Federal Government, we are focused on:

- Completing the reconstitution and rebuilding the OCFO operations and the NFC operations in New Orleans to support the functions of the Federal Government and the USDA;
- Structuring a Human Resources Line of Business (HR LoB) venture for the NFC while continuing to implement new customers into ePayroll. The HR LoB will provide a new business growth opportunity for NFC in providing human resources systems and services to all civilian Federal agencies;
- Completing the transfer of the accounting and paralegal functions of the Thrift Savings Plan to the Federal Retirement Thrift Investment Plan;
- Securing a location for the alternate worksite and computing center, which reduces the operational risk through continuous improvement of and practice in recovery operations for NFC and accounting operations;
- Working with Office of Personnel Management (OPM) on retaining employees in critical positions with long-term learning curves and cycles at the NFC; and
- Reviewing additional USDA sponsored financial services that can create savings in the Federal Government through a consolidated service center. These services include a Financial Management Line of Business.

For President's Management Agenda (PMA) initiatives, we are:

- Implementing the eTravel initiative throughout USDA to consolidate travel processes at the Department level and centrally manage them through a customer-centric, self-service, web-based environment providing end-to-end travel services;
- Adding the personal property components to the Corporate Property Automated Information System (CPAIS). CPAIS was implemented in fiscal year 2004 and currently tracks all USDA real property whether owned or leased. Incorporating personal property into CPAIS will allow USDA, in one place, to have a full view and accounting of our property assets;
- Taking aggressive action to implement the Improper Payments Information Act (IPIA), Public Law 107-300 by establishing measurements for programs that meet the required payment criteria. We strengthened guidance to agencies requiring detailed plans with key milestones and quality deliverables. We are monitoring accomplishments through monthly workgroup meetings, assessment of deliverables, evaluation of risk assessments, and agency scorecards for executives and managers;
- Conducting Independent Verification and Validation (IV&V) review activities for the following: Feasibility studies conducted and submitted by USDA Agencies and Offices in support of the USDA Competitive Sourcing Green Plan; post-competition assessments for completed performance reviews along with the cost comparison; and independent validation verification of prior year achieved savings;
- Collaborating with Departmental Administration to use competitive sourcing, where appropriate, to address core competency and skills gaps;
- Sponsoring training sessions for USDA Agencies and Offices on various A-76 related topics including: FAIR Act Inventory; Feasibility Studies; Performance Work Statements; and Most Efficient Organizations; and
- Facilitating departmental-wide collaboration efforts and working group sessions to develop standards for FAIR Act Inventory coding process: FAIR Act Inventory function code definitions are being standardized and Reason Code Justifications and Analyses are being evaluated to ensure compliance with OMB regulations.

Fiscal Year 2007 Budget Request

I would like to thank the Committee for your confidence in entrusting us with the basic resources required to provide stewardship over USDA financial processes. USDA's excellent results in sustaining and enhancing financial accountability in fiscal year 2005 were only possible because of your support. I would now like to focus on our fiscal year 2007 operating budget request, which is for \$19,931,000, an increase of \$14,116,000 or 242.8 percent more than the fiscal year 2006 budget of \$5,815,000. Approximately 90 percent of the Office of the Chief Financial Officer's current obligations are for the salaries and benefits of the OCFO employees. As part of this increase request, of \$176,000 is to fund pay costs. The pay-related increases requested are necessary for us to accomplish key outcomes and to successfully meet our goals for fiscal year 2007. The remaining \$13,940,000 of the request is for procurement of hardware and software to improve the financial management performance through implementation of a new core financial management system. OCFO is pursuing significant modernization of its technically outdated corporate financial, administrative payments and program general ledger systems. These outdated systems are no longer supported by the vendor and pose an unacceptable risk for USDA. Due to the current transaction services offered to other Federal Government entities, USDA has discussed with OMB the opportunity to offer a full financial solution to smaller agencies in the Federal Government.

USDA Working Capital Fund

The Working Capital Fund (WCF) serves as the Department's principal investment engine to achieve progress in developing and implementing new corporate systems. Last year, we again made use of authority granted to us by the Committee in the appropriations language to use unobligated balances as part of this developmental effort. In 2005, our plan for use of these resources was reviewed by Congress—as required under appropriations language—and executed to continue our progress in implementing an enterprise human resources information system, an integrated acquisition system, and a management information tracking tool. For 2006, we have prepared a plan to Congress to obligate funds in pursuit of further efforts in development of an integrated procurement system and an enterprise human resources system. That plan will be delivered to the Committees on Appropriations shortly. We are grateful for the support and look forward to working with the Committee as our efforts to improve corporate systems proceed.

In addition to the investments in corporate systems, the WCF supports services in the areas of financial management, information technology, communications, administration, as well as record keeping and item processing. It is our objective to use this financing mechanism to provide to agencies of the Department, the most effective cost-efficient centrally managed services available.

The President's fiscal year 2007 budget estimates that total operating costs for the WCF in fiscal year 2007 will be \$515.1 million—net of intrafund transfers between WCF activities—a \$13.0 million increase, or 2.6 percent over the fiscal year 2006 estimate. Costs to USDA agencies will increase more slowly, about 2.4 percent from fiscal year 2006 to fiscal year 2007.

The increases in cost estimates reflect the fact that the WCF recovers costs on the basis of user demand for services with the objective of lowering total costs through centrally-managed services. Historically, the largest of the USDA-wide services has been the National Finance Center. However, its menu of services has been changing to reflect the changing needs of customers both inside and outside USDA. Information Technology Services will be the largest WCF activity in terms of cost in fiscal year 2006. Examples of other services supported by the WCF include mainframe computing and information technology services at the National Information Technology Center in the Office of the Chief Information Officer, and video and teleconferencing production services provided by the Broadcast and Media Technology Center in the Office of Communications. Departmental Administration provides a wide variety of personal property, mail, and duplicating services to USDA and non-USDA customers. Among the corporate systems activities supported by the WCF include: Corporate Financial Management Systems and Integrated Procurement Systems. The source of funds for these investments in systems includes direct billings, purchase card rebates, and the use of unobligated balances.

I would like to point out that the WCF financing mechanism, as a reimbursement for goods and services provided, gives us an opportunity to refine our estimates as newer and better information becomes available regarding customer demand and costs. Our office is currently engaged in reviewing fiscal year 2007 estimates with the goal of reducing estimates wherever possible in costs for core services to USDA agencies. It was with this objective in mind that we were able to submit an operating estimate for fiscal year 2007 that is consistent with expected inflation. I think it is important to note that costs for core services—those corporate services in which all agencies share—will see cost increases of only 1.2 percent from fiscal year 2006 to fiscal year 2007. As we begin development of the fiscal year 2008 budget this spring, we will be reexamining fiscal year 2007 estimates for more economies and savings. As we did last year, we will establish spending targets for WCF activities that take into account the Department's spending priorities among its agencies reflected in the President's budget.

I would also like to express my appreciation to the Committee for all of the assistance and support provided to the Department in the wake of Hurricane Katrina. Specifically, the resources provided to us to address disaster recovery and resumption of business operations were essential to our success in bringing the National Finance Center and other activities in New Orleans back on line. The story of our recovery in New Orleans is primarily a story of people—dedicated workers who through their long hours of effort ensured that operations were resumed as quickly as possible. That we have been able to resume payrolling and financial operations activity to the extent we have is a reflection on their efforts and the support we have received from the Congress.

Thank you, Mr. Chairman, for the opportunity to share the results we have achieved and our fiscal year 2007 budget request with the Committee. We especially look forward to working together with you and the Committee in fulfilling the vision for financial management we all have for the United States Department of Agriculture.

PREPARED STATEMENT OF TERRI TEUBER MOORE, DIRECTOR OF COMMUNICATIONS,
OFFICE OF COMMUNICATIONS

Mr. Chairman and members of the Subcommittee, I am pleased to discuss the fiscal year 2007 budget request for the Department of Agriculture's Office of Communications (OC).

When Congress wrote the law establishing the U.S. Department of Agriculture in 1862, it said the department's " . . . general designs and duties shall be to acquire and to diffuse among the people of the United States useful information on subjects connected with agriculture in the most general and comprehensive sense of the word." OC coordinates the implementation of that original mandate.

OC coordinates communications with the public about USDA's programs, functions, and initiatives, providing vital information to the customers and constituency groups who depend on the Department's services for their well-being. For example, OC is coordinating the Department's communications efforts relating to the threat of avian influenza and is prepared to activate a Joint Information Center (JIC), which would support the Department in meeting its obligations in the event of an avian influenza outbreak. In addition, OC also coordinates the communications activities of USDA's seven major mission areas and provides leadership for communications within the Department to USDA's employees.

OC is adopting new technologies to meet the increased demands for the dissemination of accurate information in a timely manner. Using the internet, radio, television and teleconference facilities, we are able to ensure that the millions of Americans whose lives are affected by USDA's programs receive the latest and most complete information. As the continuing concern over avian influenza demonstrates, these technologies are a critical resource used by the Secretary and the agencies to provide timely information, which helps to maintain consumer confidence and stabilize agricultural markets.

OC's 5-year strategic goal is to support the Department in creating full awareness among the American public about USDA's major initiatives and services. This is essential to providing effective customer services and efficient program delivery. As a result, we expect more citizens, especially those in underserved communities and geographic areas, to access helpful USDA services and information.

A central element of this support is OC's active participation in the Department's eGovernment initiative. OC plays a key role in ensuring that the Department's eGovernment implementation results in the public's improved access to more current, accurate, relevant, and organized USDA products, services, and information. The USDA.gov portal, managed by OC, is customer- or citizen-centric, allowing OC to target information by audience preference, subject and personalization. On average, the USDA.gov portal reaches 1.5 million citizens weekly. The demand by citizens and other constituencies for information, via the USDA.gov portal, web casting, electronic mail distribution, teleconferences, and publications, is expected to continue to increase.

OC will continue to take an active part in policy and program management discussions by coordinating the public communication of USDA initiatives. We will continue to provide centralized operations for the production, review, and distribution of USDA information to its customers and the general public. Also, we will monitor and evaluate the results of these communications. Our staff is instructed to use the most effective and efficient communications technology, methods, and standards in carrying out communications plans.

Also, we are focusing on improved communications with USDA employees, especially those away from headquarters. This will enhance their understanding of USDA's general goals and policy priorities, programs and services, and cross-cutting initiatives.

Our office will continue to work hard to meet our performance goals and objectives. We will work to communicate updated USDA regulations and guidelines, conduct regular training sessions for USDA communications staff about using communication technologies and processes to enhance public service, foster accountability for communications management performance throughout USDA, and continue to work to create a more efficient, effective and centralized OC. Increasing availability of USDA information and products to underserved communities and geographic areas through USDA's outreach efforts is integral to our performance efforts. OC will also provide equal opportunity for employment and promote an atmosphere that values individuals.

FISCAL YEAR 2007 BUDGET REQUEST

OC is requesting a budget of \$9.7 million. This is a net increase of \$0.28 million for the annualization of the fiscal year 2006 pay increase and the anticipated fiscal year 2007 pay increase.

As more than 88 percent of OC's obligations are for salaries and benefits, the requested increase is vital to support and maintain staffing levels for current and projected demands for our products and services. While OC has realized some cost savings by replacing high grade employees who have retired with lower grade employees, our current budget leaves little flexibility for absorbing increased costs. In fact, OC would not be able to absorb the increased salary costs in fiscal year 2007 without placing considerable constraints on daily operations or impacting staff size and therefore the timely delivery of information to the public.

Our central task is to ensure the development of communications strategies, which are vital to the overall formation, awareness and acceptance of USDA programs and policies. The World Wide Web is firmly established as an effective means by which the Department can provide information and receive comments on the whole range of agricultural programs, functions and issues of interest to the public here or around the world.

OC will continue to strive to make the most effective use of this medium. OC has led the adoption of content management software which speeds the addition of new material, improves our quality control measures to ensure the accuracy of the information available through the USDA.gov portal, and reduces the staff time required for overall maintenance of the site.

This improved control greatly reduces the time necessary to post important information to the media and the public while providing a greater ability to ensure the accuracy of the information. This allows OC to use a large document and web repository, sharing resources and information with mission areas and agencies as well as the public.

OC looks forward to continuing our commitment to the American public by providing timely, accurate information about our programs and services.

This concludes my statement, Mr. Chairman. I will be pleased to respond to any questions.

PREPARED STATEMENT OF DAVID M. COMBS, CHIEF INFORMATION OFFICER, OFFICE
OF THE CHIEF INFORMATION CENTER

INTRODUCTION

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to share with you our progress on using information technology (IT) to improve service delivery to the customers of the Department of Agriculture (USDA), while at the same time implementing Enterprise Architecture (EA) principles and eGovernment with IT.

The Office of the Chief Information Officer (OCIO) is changing how USDA invests in and uses IT. Instead of single agency-centric systems, we are investing in common government-wide and Department-wide IT solutions. OCIO is leading USDA participation in 21 of the 25 government-wide Presidential Electronic Government (eGovernment) initiatives. At the same time, under the framework of the Department's Enterprise Architecture, we are managing USDA IT investments to promote collaboration across common lines-of-business, reduce duplication with our internal "Smart Choices," and finding savings by leveraging the USDA's size/economies-of-scale in Department-wide IT acquisitions.

The President's fiscal year 2007 budget request for OCIO totals about \$16.9 million. We are requesting an increase of approximately \$639,000 to cover pay costs.

USDA'S FISCAL YEAR 2007 INFORMATION TECHNOLOGY BUDGET SUMMARY

During the fiscal year 2007 USDA budget preparation process, OCIO staff scrutinized agency IT investment plans to ensure alignment with USDA program delivery plans as well as the USDA Enterprise Architecture. In fiscal year 2007, the Department is requesting about \$2.1 billion for IT. Components of the IT budget include:

- 37 percent of fiscal year 2007 IT spending—estimated at \$783 million, is transferred to the States for the development and maintenance of automated systems to support Food Stamps, WIC, and related programs
- The following is a breakdown of the remaining \$1.4 billion in IT discretionary funding:
 - 35 percent—estimated at \$483 million—will be used for advisory services (e.g. consultants)
 - 27 percent—estimated at \$372 million—will be used for Federal IT personnel costs
 - 18 percent—estimated at \$242 million—will be used for equipment
 - 12 percent—estimated at \$167 million—will be used for advisory services (e.g. telecommunications)
 - 8 percent—estimated at \$95 million—will be used for software.

Overall, the IT related proposals in the USDA request represent about 3 percent of the total \$64 billion proposed for IT investments for the Federal Government in fiscal year 2007.

SERVICE CENTER MODERNIZATION INITIATIVE—(SCMI)

Mr. Chairman, the modernization of our Service Center Agencies' (SCA) technology infrastructure continues to be one of USDA's highest IT priorities. The Common Computing Environment (CCE) initiative is managed by OCIO working in collaboration with the SCA. CCE supports over 45,000 SCA employees, volunteers and partners in the delivery of over \$55 billion in programs through our field office delivery system. The new infrastructure is flexible and built around maximizing information sharing both within USDA and with other Federal, State and Local agencies, the private sector, and USDA customers.

I would like to take a few minutes to update you on the status of the CCE technology, as well as our progress in merging the three SCA IT support staffs into a single organization under OCIO.

The OCIO selected Information Technology Services (ITS) as the name of the converged organization, which came into being on November 28, 2004. There were 785 full time equivalents transferred to the new ITS organization—264 were transferred from the Farm Service Agency, 351 from the Natural Resources Conservation Service, 164 from the Rural Development mission area, and 6 from other OCIO organizational elements. A total of 684 personnel were transferred out from the SCA.

ITS was established under the Department's Working Capital Fund to process revenue and obligations for ITS. The CCE appropriated dollars are to be utilized for capital expenditures, while the WCF will be used to pay ITS operating expenses for the CCE. Notifications to OMB and Congress were made to address the expansion of existing activities in our Working Capital Fund.

The purpose of creating ITS was to have one unified organization dedicated to supporting both the shared and the diverse IT requirements of the SCA and their partner organizations. On the one hand, the agencies were already sharing and investing in a common computing environment (and its infrastructure, network systems, and associated hardware, software, and training); on the other hand, each agency had to manage its own distinct computing systems, software, and IT support teams.

By converging both technology resources and skilled IT staff into one organization, ITS can efficiently focus a broad range of technology investment and diverse support, planning, and management services, spread equitably back to the agencies and replacing what might be considered triplicate efforts.

The fiscal year 2007 CCE budget request is for \$108,900,000. A net decrease of \$1,172,000, comprising:

An increase of \$5,212,000 for the CCE Basic Infrastructure, the increase will restore CCE basic infrastructure funding to a level needed to provide a stable level of service, while increasing Web Farm capacity.

A net decrease of \$4,504,500 in the Farm Service Agency (FSA) Specific Funds. FSA is in the middle of a multi-year modernization project to reengineer its legacy application systems. The goals of modernization are twofold: (1) to eliminate FSA's dependency on a proprietary and restrictive operating environment by developing applications that are platform independent; and (2) to achieve a customer-centric focus, providing ease of access and convenience to FSA customers. As these applications are developed, they will be hosted on the CCE infrastructure. In fiscal year 2007, FSA is requesting a decrease of \$4,504,500 in IT support to the \$73,260,000 CCE fiscal year 2006 base for agency specific needs. This decrease has occurred due to contract efficiencies realized with several of our support services contracts for infrastructure support. In addition, this decrease has occurred due to the completion of business modernization efforts in the Farm Loan Program area.

An increase of \$1,845,000 for the Natural Resources Conservation Service (NRCS). This increase will pay for increased telecommunications and related costs.

A decrease of \$2,277,000 in the Rural Development mission area. Now that ITS is operational, all the Web Farms are part of the ITS organization. The RD agency specific funds supports activities including the telecommunications support associated with Service Center modernization activities and the continued development and operation of the ITS Web Farms. RD has moved all of its major applications to the Web. A common infrastructure integrates Web services for RD customers, employees, and trading partners, making the Web a main stream for doing RD business. The public will be able to access more information and services online. The funds for this initiative will provide the continued support, enhancement of the common infrastructure hosting all applications for RD, regular software and hardware maintenance and the daily costs for operations and security.

A net decrease of \$347,000 in the OCIO Interagency e-Gov Funds. More of the interagency e-Gov costs are becoming operational in nature and less infrastructure related. Therefore, the amount of interagency e-Gov costs borne by the SCMI is de-

creasing. The e-Gov operational costs will be part of the service level agreements between the ITS and the Service Center Agencies.

An offsetting decrease of \$1,101,000 to reflect the permanent reduction of the fiscal year 2006 rescission from budget authority in fiscal year 2007.

Congressional support for the CCE initiative has been key to its success. As we move forward with ITS, Congressional support will remain critical.

INFORMATION SECURITY

Mr. Chairman, for many years USDA has been remiss in its responsibility to meet all Federal information security requirements. To address this situation, we have significantly improved the posture of our security program. FISMA and OMB Circular A-130 require all Federal agencies, including USDA, to certify and accredit (C&A) their systems. This effort has improved our security plans, updated and corrected our security documentation, tested our networks and applications for security weaknesses, and successfully engaged our business organizations in the discipline of security management.

USDA IT security staffs are now in the process of addressing security issues that arose through our C&A activities. Action plans have been established to mitigate specific security weaknesses and implement improved controls, and to meet the FISMA performance measures designed by OMB. Within the OCIO, we have established a rigorous process to track these corrective actions and ensure they are completed in a timely and efficient manner.

As USDA's information security program matures, automated tools are necessary to quickly and efficiently address cyber risks. We continue to provide our agency security staffs with monitoring devices and automated patching processes that assist in preventing disruption by intrusion or the introduction of malicious programs. During fiscal year 2006, we will deploy an improved incident tracking systems help us better manage and report detected breaches and we will continue to maintain a rigorous security training and awareness program which requires annual participation by all USDA and contract personnel.

Through good preventative planning, such as system C&A combined with improving the Department's overall operational response to security Challenges, we are reducing the risk associated with the electronic use and delivery of USDA information and services.

ELECTRONIC GOVERNMENT

Mr. Chairman, we continue to move aggressively to implement interagency and interdepartmental services to support common needs. The primary goals of our approach are to reduce costs and improve the quality of interactions with our customers.

USDA, along with our partners in the other Federal agencies, has worked hard over the past 5 years to simplify citizens' access and interaction with their government. The results of these efforts are remarkable. Our efforts reduced the burden on citizens, partners, and employees by simplifying access to the Department's information and services and streamlining internal processes. For example:

USDA helped citizens determine their eligibility for USDA benefits by incorporating pre-eligibility surveys onto a government-wide Web site, www.govbenefits.gov. Citizens are able to save time at a government office by completing the online survey in advance. They can learn ahead of time if they do not have to go to the office, thereby saving unnecessary travel time. USDA provides access to 34 benefits programs on GovBenefits.gov. For the 12-month period ending August 2005, the site generated over 140,000 referrals to USDA State and Federal programs' Web sites for more information.

USDA simplified citizens' access to government recreational facilities through its leadership in developing www.recreation.gov. The government's online service provides a single point of access to accurate information about Federal recreation destinations. Citizens using www.recreation.gov can access information from the Forest Service, such as cabin/campsite materials, maps, facts and figures, and permit forms. Soon, advance reservations for Forest Service facilities can be made online through the National Recreation Reservation Service.

USDA gives businesses easy, online access to resources that help them understand how to meet the compliance requirements for regulations affecting them. Currently, 13 USDA agencies are using www.business.gov to provide businesses with access to over 500 guidance resources and forms, plus compliance and regulatory information and relevant links.

We worked with our Federal partners at www.regulations.gov to make it easier for the public to comment online about Federal regulations. The

www.regulations.gov currently allows citizens to search and provide comments online on all regulations open for comment. USDA employees benefit from streamlined and consistent internal processes to review and process public comments. Currently, four USDA agencies have successfully moved from paper-based processes to the Federal Docket Management System (FDMS). USDA's other rule-making agencies are preparing to move to the online service in the near future.

USDA is a major geospatial data producer and contributor to the Federal Government's www.geodata.gov. The Geospatial One-Stop site provides online access to geospatial data collected by the FSA, the Natural Resources Conservation Service, and the Forest Service. This online access enables the public and other Federal agencies to both avoid costs and realize cost savings. Recently, USDA added a link to the National Agricultural Imagery Program's vast library so that researchers, businesses, and the general public can now directly order data sets thus greatly improving the availability of this in-demand data.

We streamlined the process of locating grant opportunities and applying for grants by working with our Federal partners to deploy a single, online access point for over 900 grant programs across the Federal Government on www.grants.gov. Citizens and business benefit through a simplified application process and reduced paperwork as the result of using the online service. As of December 2005, USDA had posted 404 funding opportunities and 57 application packages on www.grants.gov. USDA has received 340 electronic applications from the grants community via www.grants.gov.

We have adopted the tools and services provided by the Federal Government's Integrated Acquisition Environment (IAE). This improves our ability to make informed and efficient purchasing decisions across USDA and helped us eliminate paper-based and labor-intensive processes. IAE allows us to avoid the cost of building and maintaining separate systems to post procurement opportunities and to record vendor and contract information. Our purchasing officials have access to databases from other Federal agencies on vendor performance.

USDA consolidated its disaster relief information by posting it on www.disasterhelp.gov with similar information from agencies across the Federal Government. First responders can search for assistance from across the government in one place. USDA's disaster designations are prominently available on the site. This makes it easy for citizens and businesses to locate this critical information.

The USDA eAuthentication Service currently protects more than 160 of our applications. USDA employees and customers use a secure, single sign-on to access these applications, thereby reducing our customer support needs through improved security and usability. Every USDA employee that needs access to any of these integrated systems has a credential. USDA's eAuthentication Service was recently certified to be compliant with the government-wide standard for interoperability and was approved as a government-wide service provider. We integrated our eAuthentication Service with Exports.gov in December 2005.

Our National Finance Center (NFC) is one of four Payroll Partner Providers selected by the Office of Personnel Management. NFC has a 30-year track record providing payroll services to more than 130 Federal organizations, representing all three branches of the government. Through the ePayroll Initiative, NFC is partnered with the Department of Interior's National Business Center to provide payroll services to approximately 50 percent of Federal employees.

NFC was selected as a Federal Government human resources service provider for the Human Resources Management Line of Business. We provide services to the Department of Homeland Security, Library of Congress, and Government Accountability Office.

USDA proudly implemented a newly designed USDA Web site that presents the Department's information and services by topic rather than on an organizational basis (www.usda.gov). As part of our support of the President's Management Agenda's promise of easy access to the government, customers may now easily locate USDA's online information and services. No longer do they have to traverse multiple agency Web sites to track down what they need. In addition, "MyUSDA" permits visitors to customize USDA's site to provide immediate access to the information they regularly want to see. Our visitors are pleased that our agencies are rapidly adopting the USDA "look and feel." Currently, 24 Web sites have moved to the Department's Web standards, and another 36 agency sites are in the process of doing so.

USDA provided its employees with expanded educational opportunities by deploying AgLearn, www.aglearn.usda.gov, in partnership with the Office of Personnel Management's, USALearning—part of the E-Training Presidential Initiative. AgLearn provides employees around the world with access to a robust, competency-based library of courses. Geographically disparate offices are now able to easily col-

laborate in developing learning services to meet common needs and reduce costs. Employees and managers have constant access to their training curriculum and training records. In an average month, 20,348 employees completed 4,599 courses. AgLearn currently offers more than 2,300 agency-specific courses.

Our enterprise approach prevented USDA agencies from making independent investments in multiple systems for each of these services and numerous others. In addition, it greatly simplified the delivery of services to the public, unifying information from services from across the government.

ENTERPRISE ARCHITECTURE

Mr. Chairman, USDA is managing its enterprise architecture as an enterprise-wide roadmap to achieve our mission within an efficient information technology environment. USDA's Enterprise Architecture Program identifies similar processes and opportunities to unify IT solutions across our agencies. A Budget and Performance integration conceptual data model has been created to improve consistency across Departmental systems. Information on Federal and USDA e-Gov architectures is being collected for easy dissemination throughout the Department. We are also assembling the data needed, at both the Departmental level and within individual agencies, to better organize and analyze all our business processes, information needs, and supporting technologies. Through the Enterprise Architecture Repository, a shared view of the Department's current and future business and IT environment are available for USDA decision-makers to leverage IT services, avoid redundant IT investments, improve information security, and align technology and business processes more closely to the Federal Enterprise Architecture.

The USDA Enterprise Architecture Program complements the Department's IT Capital Planning and Investment Control (CPIC) process. USDA's central CPIC body reviews, monitors and approves all major IT investments to ensure alignment with the Department's strategic goals and objectives. The enterprise architecture provides a formal basis for evaluating a single investment against other investments in terms of its contribution to enhanced delivery of customer services and opportunities for collaboration and reuse. In addition to strengthening the CPIC process, the EA will enable USDA to improve key Department-wide enterprise hardware, software, and service agreements. In addition, USDA's E-Board reviews and makes final approval decisions regarding the Department's IT investment decisions. This board is comprised of the Under-Secretaries of the various Mission Areas. It is chaired by the Deputy Secretary.

IT MANAGEMENT

Mr. Chairman, we at USDA understand our responsibility to manage our IT assets and to ensure that major IT investments are completed on time, and within scope and budget. To support these responsibilities, USDA established an IT Investment and Project Management training program. This program provides project managers and project staff with the skills and competencies needed to ensure that all projects have a strong business case, meet organizational goals and are completed within their established cost and schedule goals. This training covers Federal best practices such as capital planning and investment control, information assurance, project management (PM), enterprise architecture, acquisition, eGovernment, and telecommunications issues as well as the nine knowledge areas specified by the Project Management Institute (PMI) in the Project Management Body of Knowledge, the industry standard for project management training. At the end of the training, participants are eligible to take the examination administered by PMI for certification as a Project Management Professional (PMP). This training has provided us with a growing number of PMI-certified project managers. Currently, USDA has 200 PMPs.

To supplement the 5-week PM training, we have identified and delivered shorter classes to address more specific needs including: Earned Value Management, the Project Management Lifecycle (a high-level PM introduction) and Performance-Based Acquisition. These classes expand the level of understanding of PM concepts and ensure that the skills of our trained PMs are kept up to date.

We believe that all agencies can benefit from this training and that USDA staff benefit from understanding other agencies' experiences. In addition to USDA employees, we have trained staff from the Environmental Protection Agency, the Department of Treasury, the Department of Homeland Security and the Department of Education.

CONCLUSION

Mr. Chairman, as I mentioned earlier, we are working hard to use technology to transform service delivery to USDA customers while reducing costs. With the continued support of the Congress, I am confident that we will continue to be successful in achieving these objectives.

PREPARED STATEMENT OF JAMES MICHAEL KELLY, DEPUTY GENERAL COUNSEL,
OFFICE OF THE GENERAL COUNSEL

INTRODUCTION

Mr. Chairman and members of the Subcommittee, I am pleased to have this opportunity to present our fiscal year 2007 budget request, provide you with an overview of our agency, and address some of the current activities and issues facing the Department.

The Office of the General Counsel (OGC) is the law office for the Department. As an independent, central agency within the Department, OGC determines legal policy and provides legal advice and services to the Secretary of Agriculture and other officials of the Department of Agriculture with respect to all USDA programs and activities.

OGC's services are provided through 14 Divisions in Washington, D.C. and 17 field locations. The headquarters for OGC is located in Washington, D.C. The Office is directed by a General Counsel, a Deputy General Counsel, a Director for Administration and Resource Management, and six Associate General Counsels. The attorneys located in headquarters are generally grouped in relation to the agency or agencies served. Our field structure consists of four regional offices, each headed by a Regional Attorney, and 13 branch offices. The field offices typically provide legal services to USDA officials in regional, State, or local offices.

CURRENT ACTIVITIES AND ISSUES

INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS DIVISION

During this past year, OGC has provided a significant amount of assistance in connection with USDA's international activities. With respect to World Trade Organization (WTO) matters, OGC worked extensively with the Office of the United States Trade Representative (USTR) to prepare the United States' brief in support of its claims challenging the European Communities' (EC) suspension of approvals of all applications for biotech products. This action is being brought under the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement). The United States also challenged nine safeguard measures that have been enacted by six EC member States banning several biotech products that were already approved for sale in the European Union (EU) prior to 1998. The United States contended that the EU has imposed "undue delay" in connection with product approvals in violation of Article 8 of the SPS Agreement; has not made decisions based on risk assessments as required under Article 5.1; and has violated Article 5.5 which prohibits Members from adopting arbitrary or unjustifiable distinctions in their level of protection in "different" but comparable situations. A confidential interim report was issued by the WTO in this case on February 7, 2006. OGC attorneys have also continued to provide support to the USTR in connection with the challenge brought in the WTO by the Government of Brazil against virtually all aspects of the Department's domestic and export-related cotton programs. This case has major implications for the manner in which these programs are administered regarding cotton, and the legal principles at stake may also affect other commodity programs.

In other WTO matters, OGC attorneys have provided advice to Departmental officials, primarily those in the Foreign Agricultural Service (FAS), with respect to various sanitary and phytosanitary issues, including reviewing responses to WTO notifications of proposed regulatory changes. These attorneys also advised FAS personnel in the review of various proposed changes to existing WTO agricultural provisions that would be the framework for future WTO negotiations.

During the past year, OGC has also been involved in the implementation of a large number of foreign assistance agreements under which agricultural commodities acquired by the Commodity Credit Corporation (CCC) are donated overseas. This includes involvement in relief efforts addressing the humanitarian needs in Iraq and the Darfur region of Sudan. This work has involved extensive review of draft agreements, commodity procurement agreements, ocean transportation issues, and cargo loss and damage claims. OGC has also provided legal advice to FAS in

relation to the operation of the Bill Emerson Humanitarian Trust through which reserves of commodities may be made available to meet unanticipated emergency needs and has assisted CCC's Kansas City Commodity Office in reviewing the commodity procurement processes under which agricultural commodities are acquired for their donation overseas. In the area of international food assistance, OGC reviewed and helped draft numerous agreements with private voluntary relief organizations, the World Food Program of the United Nations, and various foreign governments. This assistance included a combination of donations and concessional credit sales of grains, oilseeds, and other U.S. agricultural commodities.

The Trade Adjustment Assistance Program for Farmers has also continued to require a significant amount of assistance from OGC attorneys. In general, this program assists agricultural producers who have incurred reductions in commodity prices due to increased imports of agricultural products into the United States as the result of trade agreements. At this point, a substantial number of appeals have been filed with the U.S. Court of International Trade challenging FAS's decisions on applications for payment. OGC attorneys are providing assistance to the Department of Justice (DOJ) in responding to these appeals.

OGC also provides advice to FAS concerning cost-reimbursable agreements entered into by FAS and other USDA agencies with foreign governments or other U.S. government agencies that are engaged in international agricultural activities.

During the past year, OGC attorneys provided extensive assistance with respect to the numerous commodity and conservation programs implemented by the Department under various statutes, including the Agricultural Adjustment Act of 1938, the CCC Charter Act, the Food Security Act of 1985, and the Farm Security and Rural Investment Act of 2002. Most notably, with respect to 2004 hurricanes, OGC provided major support to the efforts of the President to provide assistance to agricultural producers affected by the unprecedented damage in Florida caused by the occurrence of 3 successive hurricanes. Working with senior Departmental officials and representatives of the Executive Office of the President, OGC attorneys were able to provide the legal framework under Section 32 of the Act of August 24, 1935 (Section 32) so that payments could be made to producers within weeks of the hurricane damage. Similarly, OGC has provided legal advice to the Farm Service Agency (FSA) in the development of regulations and program documents needed to deliver several billion dollars of disaster assistance payments to producers under the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005, and under Section 32 with respect to Hurricanes Ophelia, Dennis, Katrina, Rita, and Wilma. OGC also continues to expend considerable time in providing assistance on legal issues involving the sugar, peanut, and dairy programs.

Title VI of the America Jobs Creation Act sets forth amendments to existing statutes to terminate the Tobacco Price Support and Marketing Quota Programs. In addition, this act establishes a 10-year, \$10 billion program to provide payments to tobacco quota holders and tobacco producers with the funds coming from assessments on tobacco product manufacturers and importers. Implementation of this very complex and important program is requiring the substantial devotion of assistance by OGC.

FOOD AND NUTRITION DIVISION

With respect to USDA's nutrition assistance programs, OGC has been heavily involved in: (1) the development, drafting and review of legislative reports and congressional testimony; (2) the implementation and enforcement of new legislation aimed at welfare reform and other program improvements; and (3) the ongoing program integrity and compliance initiatives. We expect the demand for legal services in connection with these and other activities to remain constant in fiscal years 2006 and 2007.

More specifically, during this past year, OGC attorneys provided formal and informal advice on a number of issues affecting the administration of the nutrition assistance programs. OGC provided assistance in the drafting and subsequent enactment of section 780 of the Consolidated Appropriations Act, 2005, which prohibits the use of funds appropriated under that act to reimburse the administrative costs of States under the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) for stores that receive more than 50 percent of their revenue from WIC transactions. This prohibition represents a significant cost savings for the WIC Program. OGC also worked effectively in the development of legislative proposals to limit categorical eligibility for the Food Stamp Program (FSP) to persons who receive actual cash benefits under the Temporary Assistance for Needy Families program and to authorize access, for program verification purposes, to the Na-

tional Directory of New Hires. These legislative proposals supported the budgetary objectives of the administration. OGC also provided advice to the Center for Nutrition Policy and Promotion in connection with roll-out activities with respect to 2005 Dietary Guidelines for Americans and the associated MyPyramid.

During the past year, OGC assisted in the defense of several legal challenges to the nutrition assistance programs. Among other issues, OGC worked closely with the DOJ Antitrust Division in the preparation of a lawsuit to challenge the merger of two dairy companies which would have severely restricted competition in the procurement of milk contracts for the National School Lunch Program in Arkansas and substantially contributed to the successful defense against allegations of denial of due process raised by a Child and Adult Care Food Program sponsor.

OGC participated in the preparation and review of numerous significant documents, memoranda, rules, notices, and correspondence during this past year. As examples, OGC reviewed a substantial number of proposed and final Federal Register publications, including: (1) interim and final rules establishing new standards for the approval and operation of FSP electronic benefit transfer systems; (2) a proposed rule to amend the FSP regulations to implement the discretionary quality control provisions of Title IV of Public Law 107-171; (3) a proposed rule to revise regulations governing WIC food packages; and (4) a final rule to amend WIC regulations to address issues raised by WIC State agencies, members of the WIC community and the U.S. Government Accountability Office. Similarly, OGC provided legal review of the documentary basis for the Department's nutrition assistance response to disaster conditions caused by hurricanes Katrina, Rita, and Wilma along the Gulf Coast.

OGC also provided advice on a number of issues affecting the efficient administration of the nutrition assistance programs. OGC provided valuable assistance and advice to Department officials regarding the preparation of a joint letter signed by the Secretaries of Agriculture and Health and Human Services issuing guidance to State Governors regarding the eligibility of faith-based drug and alcohol abuse treatment programs to act as retail food stores under the FSP. This effort required close coordination with the White House Counsel's Office and Office of Faith-Based and Community Initiatives, as well as the Office of Management and Budget. OGC provided legal advice to FNS in connection with the denial by FNS of the request of a State school district to impose gender-specific seating requirements in cafeterias operated under the National School Lunch Program. OGC also worked closely with Department officials in the review of a State proposal for the fundamental restructuring of the FSP application process with a focus on improved efficiency and effectiveness of the delivery of program benefits. This review required careful analysis of authorities related to electronic signatures and record-keeping and to authorities regarding merit pay requirements for State officials involved in the certification of applicants. OGC continues to work closely with Department officials engaged in evaluating and sanctioning States for their performance in administering the FSP under the quality control system.

MARKETING, REGULATORY AND FOOD SAFETY PROGRAMS

OGC staff are providing the strongest possible legal support to the Food Safety and Inspection Service (FSIS) to ensure the safety of the Nation's meat, poultry, and egg products. We participate fully in the agency's work to enhance the effectiveness of the Hazard Analysis and Critical Control Points (HACCP)/Pathogen Reduction regulations, to support effectively the agency's compliance and enforcement program, and to defend FSIS in legal challenges to the implementation of its statutory authorities and regulations.

OGC attorneys continue to work with DOJ attorneys in defending civil actions that have been initiated in Federal court against the Department involving FSIS' food safety programs. One such case involves a Bivens complaint filed by Nebraska Beef in the District Court for the District of Nebraska alleging that FSIS employees improperly suspended inspection services. Nebraska Beef has also filed a related lawsuit in Federal court challenging FSIS enforcement actions. A second case involves a Bivens complaint filed by Montana Quality Foods in the District Court for the District of Columbia alleging that FSIS employees took retaliatory action in enforcing FSIS' policy regarding E. coli O157:H7 contamination.

OGC also provides assistance to FSIS in connection with its rule making activities. Our attorneys work with FSIS staff from the early stages of the agency's policy development activities, and participate in an array of agency working groups and regulation development teams. OGC has assisted FSIS in connection with ongoing rule making to strengthen protections against exposure to the bovine spongiform encephalopathy (BSE) agent. The interim rules require the removal of certain ani-

imals and specified risk materials from the human food chain, mandate additional process controls for establishments that use advanced meat recovery systems, require establishments to hold meat from cattle that have been tested for BSE until the test has been confirmed negative, and prohibit the air-injection stunning of cattle. We are working with the agency in developing a final rule that will encompass a careful evaluation of the comments submitted in response to the interim rule.

OGC also assisted FSIS on an array of rules, notices and directives aimed at improving the Department's food safety program. The issues involved included safe food handling practices, food security plans, and emergency preparedness, and revisions to the agency's recall procedures to improve the dissemination of recall information. We also worked with FSIS and the Food and Drug Administration (FDA) to amend food standards and regulatory requirements to provide a more coherent approach to food safety.

OGC devotes substantial resources to FSIS field operations activities and its critical compliance and enforcement programs. Our attorneys work on a daily basis with the agency's compliance and enforcement staff officials, with the Office of Inspector General (OIG), and with DOJ to achieve successful prosecution of criminal, civil and administrative cases involving violations of the meat, poultry, and egg products inspection laws, and to prevent the distribution of adulterated, misbranded, or uninspected products.

In the past year, OGC handled numerous criminal, civil, and administrative cases in this area. The criminal cases involve not only violations of the Federal Meat Inspection Act (FMIA) and Poultry Products Inspection Act (PPIA), but also violations of provisions of U.S. criminal laws relating to false statements, bribery, conspiracy, and mail and wire fraud. The civil cases involved injunctions, seizure actions, bankruptcy and claims collections actions and the defense of civil lawsuits brought against the Department and its officials. Typically, OGC prepares proposed indictments, information and complaints, and provide whatever assistance is necessary for the successful prosecution or defense of the cases.

OGC attorneys are responsible for prosecuting administrative actions initiated by FSIS to withdraw, suspend or deny Federal meat and poultry inspection or custom exemption services under the FMIA and PPIA based on criminal convictions, as well as on serious HACCP and Standard Sanitation Operating Procedures (SSOP) regulation violations.

The Department's programs for safeguarding the animal and plant health of the United States is a matter of utmost importance to American agriculture and to the public as a whole. OGC works very closely with the Animal and Plant Health Inspection Service (APHIS) in carrying out that agency's program responsibilities. APHIS's program and regulatory activities continue to increase substantially. The focus of our work with APHIS remains the development and implementation of legally supportable measures to prevent the introduction and dissemination of animal diseases and plant pests, to ensure the safe entry of people and goods into the United States, and the facilitation of agricultural trade in compliance with our international obligations. The demands on OGC staff for timely and effective legal support continue to increase proportionately.

During the past year, APHIS regulatory activities involving BSE have placed extraordinary demands on our attorney resources. Among the many challenging issues requiring extensive assistance was the agency's regulatory response to BSE in North America, particularly the litigation that followed on the publication of the rule to establish BSE minimal-risk regions. In addition, we assisted APHIS in its work on Asian longhorned beetle, emerald ashborer, grasshopper control, sudden oak death syndrome (SOD), control programs for low-pathogenic avian influenza, bovine tuberculosis, chronic wasting disease, and exotic Newcastle disease.

In addition, requests for OGC's assistance in connection with APHIS' regulation of biotechnology has continued to increase, and we have devoted substantial resources to the biotechnology regulatory programs and the implementation and enforcement of agency regulations. This includes defending litigation challenging the agency's regulation of genetically modified turf grasses.

OGC also handles a very substantial caseload of administrative cases on behalf of APHIS to enforce the agency's regulations. OGC attorneys have also continued our strong support for APHIS' Wildlife Services activities and programs and have defended these programs in a variety of litigation settings in the Federal courts.

In the past year, OGC attorneys reviewed over 150 dockets, as well as many other documents relating to marketing orders, and provided daily legal advice to client agencies in connection with a wide variety of matters arising under both the fruit and vegetable and the milk marketing order programs. Substantial legal services were devoted to both formal and informal rulemakings. Formal rulemaking proceedings presented complex and substantial amendments and revision to a number

of marketing order programs. Significant legal services were provided in connection with enforcement and defense of these programs. There is one administrative challenge to the legality of the California Raisin marketing order which is pending. In addition, OGC has filed numerous administrative complaints to enforce the terms of marketing orders which require regulated entities to pay their assessments and to comply with the requirements in the order. Significant legal services were provided in connection with an administrative challenge to classification determinations concerning Class I and Class II milk. There are also a number of complaints pending in the Federal courts filed by DOJ in order to obtain payments from milk handlers into the producer-settlement fund.

An extensive amount of legal services was provided in the drafting of regulatory language in various rulemaking proceedings. OGC continued to provide legal assistance to the Agricultural Marketing Service (AMS) Dairy Programs on several rulemaking proceedings in the Mideast, Upper Midwest and Central Orders which provided for changes to the milk pooling standards and related issues. OGC continued work on the ongoing rulemaking proceeding involving potential changes in the producer-handler definition in the Pacific Northwest and Arizona-Las Vegas Orders including review of the recommended decision. OGC completed work on the amendment of the Appalachian, Florida, and Southeast Florida Orders to implement a temporary supplemental charge on Class I milk to be paid to handlers who incurred extraordinary transportation charges for moving milk to supply those markets because of the hurricanes in August and September 2005. OGC also completed work on changes to all the orders to reclassify milk used to produce evaporated milk and sweetened condensed milk in consumer-type packages from Class III to Class IV. OGC provided legal services on a rulemaking proceeding to amend the Class I fluid milk product definition in all milk marketing orders.

OGC continued to provide legal assistance to DOJ and the client agencies in numerous administrative and Federal court cases involving challenges to the constitutionality of generic advertising funded by mandatory assessments in research and promotion programs. Since the United States Supreme Court May 2005 ruling upholding the constitutionality of the Beef Promotion and Research Act, in *Veneman v. Livestock Marketing Association*, USDA is advancing those same arguments in defense of the other challenged research and promotion programs. All research and promotion programs continue to receive legal services in the intervening period. For example, OGC expended substantial resources litigating more than 100 administrative and Federal court First Amendment cases arising under research and promotion programs. These cases involve some of the most important, complex, and controversial legal and public policy issues in constitutional and agricultural law. Research and promotion programs cumulatively collect and spend over \$700 million a year on commodity promotions. OGC also provided extensive legal analysis for a proposed implementation of a new research and promotion program for mangos.

OGC expended substantial resources in connection with the Animal Welfare Act and Horse Protection Act Programs. OGC attorneys serve as agency counsel in administrative enforcement actions brought under these two statutes, and in fiscal year 2005, OGC initiated 46 enforcement cases, and 49 decisions were issued in ongoing cases. In addition, OGC reviewed and provided drafting assistance to APHIS in a number of rulemaking actions for publication in the Federal Register.

OGC reviewed a variety of rulemaking and other documents in connection with this program. OGC continued to work with and advise the agency concerning program changes to better serve the grain industry in a more cost effective and efficient manner. OGC attorneys provided substantial advice and guidance in connection with a number of issues, including reauthorization of the program, use of contracting authority to provide inspection and weighing services and exemption of specialty grain from inspection and weighing requirements.

In the Trade Practices area, we provide legal services under the Packers and Stockyards Act (P&S Act), the Perishable Agricultural Commodities Act (PACA), and the Capper-Volstead Act and provide the liaison for the Department under the Memorandum of Understanding between the Department, the Federal Trade Commission and the DOJ on competition issues. Under the P&S Act, the attorneys of the Trade Practices Division file administrative complaints to enforce the provisions of the statute, requiring prompt payment for livestock and poultry and ensuring that livestock auction markets and dealers are solvent, provide accurate weights and measures, and account accurately to sellers and producers of livestock.

In 2005, OIG conducted an audit of the competition investigations and cases conducted by the Packers and Stockyards Program (P&SP). After several months, OIG issued a report finding that P&SP had difficulties defining and tracking investigations, planning and conducting competition and complex investigations, and making agency policy decisions. As a result, the report found that P&SP's tracking system

was not reliable, competition and complex investigations were not being performed, and timely action was not being taken on issues that impact day-to-day activities. The report also found that P&SP should increase its communication and cooperation with OGC. As a result of the report's findings, GIPSA has requested OGC's assistance in streamlining procedures and in training its staff, and P&SP is seeking oral opinions and legal guidance on a more frequent basis.

OGC has provided extensive legal services in support of the GIPSA program in a case against Valley Pride Pack, Inc., ("Valley Pride"), a beef slaughter and meat processing company with its corporate headquarters and principal place of business in Norwalk, Wisconsin. Valley Pride shut down, leaving cattle sellers unpaid for roughly \$3.5 million worth of livestock purchases from late July and early August 2001. Following Valley Pride's financial collapse, OGC assisted in preparing an analysis of unpaid livestock sellers' claims pursuant to the P&S Act trust, which requires meat packers to hold inventories, receivables and proceeds from the sale of meat or livestock derived products in trust for the benefit of livestock sellers. The analysis found \$3.4 million in apparently valid, timely claims by cattle sellers. These claims were subsequently paid by Valley Pride's primary pre-petition lender, GE Capital, which held a security interest in Valley Pride's inventory and receivables. Cattle sellers received additional funds from Valley Pride's packer bond. Following the trust and bond payouts, approximately sixty-five cattle sellers remained unpaid for roughly \$50,000 worth of cattle purchased by Valley Pride. On behalf of GIPSA, OGC filed an administrative, disciplinary complaint against Valley Pride alleging failures to make timely payment for cattle purchases, and naming the company's sole owner and chief executive officer, as a respondent, alleging that the violations of the P&S Act occurred while the company was under his direction, management and control. After GE Capital made allegations of fraud, OGC amended the complaint against Valley Pride and the company's sole owner, alleging that the respondents had engaged in unfair and deceptive practices by creating false records, including invoices and payment receipts, evidencing cattle and/or meat sales by Valley Pride to third parties for which no sales actually occurred. Millions of dollars in fictitious assets had been used to offset real liabilities in Valley Pride's financial reports, thereby disguising the company's insolvency. At the end of the fiscal year, the parties were seeking resolution of the complaint through an agreement that would result in the full payment to all livestock sellers. On January 30, 2006, just prior to the scheduled hearing for GIPSA's administrative complaint against Valley Pride and the company's owner, the case was resolved by a negotiated consent decision. Respondents, Valley Pride and the company's owner, agreed to cease and desist from further violations of the Packers and Stockyards Act's prompt payment provisions and agreed to keep records that fully and correctly disclosed all transactions in their business. Valley Pride and the company's owner were also jointly and severally assessed a civil penalty of \$80,000. By agreement between the parties, GIPSA agreed to hold \$55,000 of the civil penalty in abeyance to facilitate payments by respondents to cattle sellers who still remained unpaid for cattle purchases by Valley Pride.

OGC has also provided legal services to GIPSA in the review of the plan and data request for the Livestock and Meat Marketing Study (LMMS), a study requested by Congress to review the impact of long term contracting and use of captive supply by slaughtering packers. Captive supply is defined by P&S Programs as livestock that are committed to a packer more than 14 days prior to slaughter. The study was to review the question of whether such longer term commitment impacts the "spot" or cash market for livestock. OGC assisted P&S in the preparation of the information collection request for Departmental and OMB clearance, meeting with OMB officials on a number of occasions to address OMB's concerns regarding the agency's plans for the study and the treatment of confidential data.

Trade Practices attorneys prepared and filed administrative enforcement actions under the PACA. Of particular significance, the Trade Practices Division has continued to litigate administrative disciplinary cases arising out of the criminal convictions of eight USDA inspectors and 12 individuals who were owners and/or employees of PACA licensed produce firms located on the market. Fruit and Vegetable Programs of AMS filed eight disciplinary complaints against nine produce companies located on the Hunts Point market: (1) Post & Taback, Inc., (2) M. Trombetta & Sons, Inc., (3) Cooseman's Specialties, Inc., (4) KOAM Produce, Inc., (5) King Sol Produce, (6) BT Produce Co., Inc., (7) Kleiman & Hochberg, Inc., (8) G&T Terminal Packaging Co., Inc. and (9) Tray Wrap, Inc. The complaints alleged that the companies, which by statute are held to an identity of action with their employees or agents, had violated section 2(4) of the PACA by making illegal payments to Federal produce inspectors. Seven of the complaints sought a sanction of revocation of the company's PACA license. One complaint sought a sanction of a finding of the com-

mission of flagrant or repeated violations of section 2(4) of the PACA, rather than a revocation, because the company no longer had a PACA license. The sanctions sought also include employment sanctions against the principals of the nine produce firms.

One of the eight cases, King Sol Produce, was decided by default. The remaining seven cases went to hearing before the Department's Administrative Law Judges (ALJ's), who have issued decisions in all seven cases (though the Respondent in BT Produce Co., Inc., has asked the Chief ALJ for reconsideration). Six of the ALJ decisions were appealed to the Department's Judicial Officer (JO), who has decided four of them (Post & Taback, Inc.; G&T Terminal Packaging Co. Inc.; Tray Wrap, Inc.; and M. Trombetta & Sons, Inc.), finding that the companies committed the alleged violations and issuing the sanctions requested by Fruit and Vegetable Programs. G&T Terminal Packaging Co., Inc., and Tray Wrap, Inc., has been appealed to the 2nd Circuit Court of Appeals. One case, Post & Taback, Inc., was appealed to the U.S. Court of Appeals for the D.C. Circuit, which upheld the JO's decision (Post & Taback, Inc. v. Department of Agric., 123 Fed Appx. 406 (D.C. Cir. 2005)).

Also in support of the PACA Program, OGC and DOJ continued to defend against a challenge to an amendment of a PACA regulation that added coating or battering to the list of operations that do not alter the character of a fresh fruit or fresh vegetable so that it is no longer a "perishable agricultural commodity". The lawsuit, filed by a bankrupt wholesale grocer and retailer, argues that the regulatory amendment conflicts with the language and purpose of the PACA, and that the rulemaking process was inadequate. On June 7, 2004, a judge in the U.S. District Court for the Eastern District of Texas granted USDA's Motion for Summary Judgment. The judge found that the "PACA ambiguously states that fresh fruits and vegetables of every kind and character are perishable agricultural commodities" and that, where legislative language is ambiguous, the Secretary is granted the authority to issue regulations to determine what may be classified as fresh fruits and vegetables for the purposes of the PACA. The judge also found that USDA followed the appropriate procedural requirements in amending the regulation. Therefore, the court found that the amendment to the regulation is valid. The grocer/retailer appealed the decision to the 5th Circuit Court of Appeals. Oral argument was held in New Orleans, Louisiana, on April 5, 2005. On February 1, 2006, the 5th Circuit Court of Appeals issued an unpublished decision affirming the decision of the U.S. District Court for the Eastern District of Texas upholding the validity of the amendment to the regulation. In its brief decision, the 5th Circuit affirmed, finding the regulation to be valid "for the reasons articulated by the district court in its comprehensive opinion".

RURAL DEVELOPMENT

OGC also provides legal services to USDA agencies which manage some of America's largest loan portfolios. OGC continues to be heavily involved in debt collection, foreclosure, and bankruptcy matters for FSA, Farm Loan Programs and the Rural Development (RD) mission area. OGC is assisting these agencies' implementation of provisions of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 that became effective on October 17, 2005, and greatly affected USDA as a creditor. OGC also has provided significant assistance in identifying and utilizing existing and new emergency authorities, responding to claims, and coordinating benefits in response to the many disasters that have recently impacted the southern United States including Hurricanes Katrina and Rita. OGC also has supported the agencies' efforts to implement eGovernment initiatives and move towards web-based credit application, servicing, and notification procedures.

OGC continues to defend approximately 300 existing and newly filed lawsuits involving approximately 800 RD multi-family housing projects whose owners want to prepay their loans and, thereby, remove a significant number of low-income housing units from rural America. OGC has devoted significant time and resources to working closely with DOJ to support litigation efforts, particularly in providing information and analysis in the context of settlement negotiations.

OGC is working extensively with the Rural Housing Service (RHS) on implementing several new programs. The Multi-Family Housing Preservation and Revitalization Restructuring Demonstration Program (Revitalization Program) will revitalize selected Rural Rental Housing (RRH) properties throughout the Nation. The Revitalization Program allows for loan servicing tools previously unavailable to RHS such as grants and subordinates section 515 loans with all principal and interest deferred as a balloon payment at the end of the loan term.. OGC is currently working with RHS on drafting the Notice of Funding Availability and the legal documents necessary for restructuring the owners' loans. The Multi-Family Housing Voucher Demonstration Program (Voucher Program) will provide continued rental

assistance to low-income households in prepaid RRH projects. RHS is providing continued rental assistance in the form of 1-year portable vouchers. OGC is working with the Department of Housing and Urban Development and RHS in drafting a Notice of Funding Availability and Interagency Agreement for the Voucher Program. OGC also assisted RHS in developing its Preservation Revolving Loan Fund program which was authorized as a demonstration program under the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2005.

OGC also has assisted the Rural Business-Cooperative Service (RBS) on various new and continuing initiatives. OGC reviewed RBS' final rules implementing the new Energy Systems and Energy Efficiency Improvements Program and the Biomass Research and Development Program under the Farm Security and Rural Investment Act of 2002. OGC also provided RBS legal assistance in revising its Business and Industry loan regulations. RBS has needed increased support on secondary market issues and its Rural Business Investment Program that funds rural area venture capital investment activities. In addition, OGC is providing significant support on several major defaults on guaranteed Business and Industry loans and negligent servicing by guaranteed lenders. OGC continues to experience a significant increase in requests for advice regarding various grant and cooperative agreement issues, and is assisting RBS' and RHS' implementation of the President's Faith-Based and Community Initiative to ensure that faith-based and community organizations have equal access to USDA programs.

The need for legal services supporting the programs of the Rural Utilities Service (RUS) continued to grow significantly in fiscal year 2005 as a result of sustained increased funding for RUS programs, increased responsibilities for RUS resulting from the passage of the Farm Security and Rural Investment Act of 2002, and the impact of continuing changes in the electric and telecommunications program structures and policies.

The RUS Electric Program is the largest of these programs. Several of these loans involved large-scale generation and transmission projects. OGC furnishes the legal services necessary for RUS to document and secure these obligations, thereby enabling these programs to be delivered. OGC is providing a full range of legal services to RUS to enable successful administration of these programs, including the servicing of a direct and guaranteed loan portfolio.

The 2002 Farm Bill amended the Rural Electrification Act of 1936 by adding a new Title VI which established a Broadband Direct and Guarantee Loan Program (Broadband Program) in RUS. The RUS Broadband Program plays a critical role in implementing the President's initiative to make access to broadband technology available to every American by 2007. OGC furnishes all legal services necessary to establish and maintain this program. Since the beginning of this program in February 2003, OGC has furnished all legal assistance needed by RUS in approval of all loans. During fiscal year 2005, OGC improved the legal documentation packages necessary to protect the government's financial interests in these transactions. During fiscal year 2005, OGC began assisting RUS and DOJ in collecting obligations from telecommunications borrowers aggregating approximately \$50 million. The bulk of these obligations to the Broadband and Internet Services Programs were established as pilot programs in 2001. The volume of pilot projects in legal collection is expected to continue growing in fiscal year 2006 and carry over into fiscal year 2007 as an increasing number of pilot projects default.

The 2002 Farm Bill also established a new guarantee program under Section 313A of the Rural Electrification Act which provides for RUS to issue guarantees of bonds and notes issued by lenders to electric cooperatives. OGC assisted RUS in developing the regulations to implement this new program. OGC provided substantial legal assistance to RUS in developing the legal documentation that enabled RUS to deliver its first guarantee. OGC efforts to provide legal support to RUS for administering these guarantee agreements will continue into fiscal year 2007.

In addition to the new Broadband Program, OGC is providing legal services to support several other new RUS initiatives. OGC also supports the RUS mission by providing legal services to RUS that enable the agency's participation in the Rural Telephone Bank (RTB). During fiscal year 2005, RTB's demand for OGC legal services to support the process of dissolving the public/private RTB rose dramatically. As proposed in the 2007 President's budget, RTB is expected to be dissolved by fiscal year 2007. However, the complex process of winding up the affairs of RTB is expected to continue to place significant demands on OGC legal resources beyond the dissolution and distribution of RTB stock proceeds to the shareholders that is scheduled to occur during fiscal year 2006.

Congress recently amended the Rural Electrification Act of 1936 to add new authority for RUS, in collaboration with the Department of the Treasury, to extend

the maturities for outstanding loans associated with power plants and transmission lines which have been determined to have longer useful lives, e.g. in the case of a nuclear plant whose license has been extended by the Nuclear Regulatory Commission (NRC) for an additional 20-year term. The documentation and procedures for implementing this new authority, which also involves assessing a fee for this service, will need to be developed. OGC anticipates this program will be used extensively during fiscal year 2007.

OGC continues to provide significant assistance in the area of Federal crop insurance. OGC supports DOJ in defending several multi-million dollar lawsuits brought by insured farmers and companies reinsured by the Federal Crop Insurance Corporation (FCIC). These suits involve a wide variety of issues government committed an error or omission as to its 2000 sugar beet policy. OGC also is providing a great deal of support to the Risk Management Agency (RMA) with regard to the financial collapse and liquidation of one of its largest insurance providers, implementation of new risk management programs developed by the private industry, and responding to new and emerging diseases and the spread of existing diseases. OGC also is assisting RMA's development of a new combo policy that incorporates the provisions of the actual production history and various revenue plans of insurance into a single policy, and updates of numerous other crop insurance policies.

Implementation of the Agriculture Risk Protection Act of 2000 continues to increase the responsibilities of RMA and OGC. Compliance efforts have included the development of administrative disqualification, suspension, and debarment actions against producers, agents, loss adjusters, reinsured companies and the update of associated regulations. OGC also is assisting RMA's development of conflict of interest requirements for reinsured companies, agents and loss adjusters and reviewing administrative actions to alleviate fraud, waste and abuse in the program.

OGC continues to work with Department officials to reduce regulatory burdens and eliminate obsolete and unnecessary regulatory requirements, particularly in the areas of rural development, farm, and utility lending. Increased OGC assistance has been required in the defense of several significant civil rights actions against FSA and RHS and the continued implementation of the Pigford consent decree. We are assisting RHS and FSA in streamlining and rewriting loan-making and servicing regulations for the Guaranteed Single Family Housing Loan Programs, the Community Facilities Loan and Grant Programs, and the Farm Loan Programs. Our efforts on these long-range projects will continue into fiscal year 2007.

NATURAL RESOURCES

OGC continues to provide substantial legal assistance related to Forest Service (FS) land management planning and program area compliance with environmental and administrative laws and regulations. Litigation involving agency compliance with the National Environmental Policy Act (NEPA), the National Forest Management Act (NFMA) and the Endangered Species Act (ESA) continues apace, with approximately 170 cases pending at the end of fiscal year 2005, the same level as the previous year. OGC anticipates this level of litigation to continue or increase. Examples of litigation regarding program matters and regulatory actions include litigation related to the National Fire Plan, the State Petition Rule regarding roadless areas, the Planning Rule, the Northwest Forest Plan, the Sierra Nevada Framework and the Healthy Forest Restoration Act. Project level litigation involves among other things, timber sales, grazing permits, and special use authorizations.

OGC has provided extensive assistance regarding the preparation and defense of the FS's 125 Land and Resource Management Plans. Significant legal services were provided in association with development of interim direction and other guidance respecting the agency's revised NFMA planning regulation. The implementation of the revised NFMA planning regulations is underway in forest plan revisions, requiring a heavy investment of OGC legal services. OGC continues to devote substantial time and resources to assisting the FS with large-scale planning initiatives and project preparation.

USDA and FS efforts regarding the President's Healthy Forests Initiative and the Healthy Forests Restoration Act have also required significant assistance from OGC. This initiative will continue to require a substantial investment of OGC time and effort in defending agency reforms associated with this initiative. Numerous lawsuits are ongoing that challenge these reforms.

OGC continues to provide legal advice to ensure FS and Natural Resources Conservation Service (NRCS) compliance with Federal administrative laws, such as the Administrative Procedure Act, the Data Quality Act, the Federal Advisory Committee Act, the Freedom of Information Act, the Paperwork Reduction Act, the Pri-

vacy Act, Executive Orders, and other authorities governing Federal decision-making, which can and do arise in a variety of legal and factual settings.

In the recreation area, OGC drafted several FS directives implementing a new regulation governing management of off-highway vehicle use on National Forest System (NFS) lands. OGC provided significant legal advice regarding a final rule providing for cost recovery for processing special use applications and monitoring compliance with special use authorizations. OGC drafted a memorandum of understanding (MOU) among 5 Federal agencies and 31 shooting sports organizations regarding shooting sports activities on Federal lands. OGC created and updated standard special use authorization forms. Additionally, OGC developed FS accessibility guidelines for outdoor developed recreation areas and trails on NFS lands. OGC drafted a directive that extended the maximum term for FS outfitting and guiding permits from 5 to 10 years. OGC assisted with implementation of inter-agency recreation fee legislation that supplants the recreation fee authority in the Land and Water Conservation Fund Act and the Recreational Fee Demonstration Program statute. OGC defended a legal challenge to the FS's national trail classification system. OGC also provided assistance to the FS in requiring States and other non-Federal governmental entities that hold FS special use permits to insure and indemnify the United States under those permits.

In the forest management program area, OGC continued to provide litigation support to DOJ in collecting millions of dollars in damages owed the government by defaulting timber sale purchasers. OGC continued to provide assistance to DOJ in on-going settlement negotiations of several consolidated cases, at one time numbering twenty, concerning the collection of tens of millions of dollars in principal damages plus interest owed the government pursuant to orders issued in two of the representative consolidated cases. To date, the government has collected more than \$16 million in damages from the consolidated cases.

OGC provided legal assistance on the defense of approximately 25 lawsuits challenging timber sale suspensions, modifications and cancellations, and alleging breach of contract for unlawful suspensions, modifications and cancellations seeking tens of millions of dollars. Additionally, OGC provided legal assistance in drafting contract provisions to limit liability for contractual damages and to clarify the obligations of the parties to the timber sale contract. OGC continued to revise and present, twice annually, a 3-day course on Contract Law to train FS contracting officers on various aspects of contract law as it relates to their daily program activities.

OGC continues to provide legal advice and assistance to FS regarding implementation of stewardship contracts and other forms of agreement which allow the agency to achieve forest resource management objectives in exchange for forest products. Under these stewardship contracts, timber is harvested while contractors perform services, such as road and trail maintenance, watershed restoration and restoration of wildlife habitat. OGC has reviewed and provided advice on the standard contract form and is working with the agency to adapt other instruments for use in a stewardship setting.

As the FS continues to implement OMB circular A-76 on competitive outsourcing, OGC has continued to serve as its legal advisor in this effort. OGC anticipates committing significant time and resources to the provision of advice and assistance in this area.

In congressional matters, the Natural Resources Division (NRD) provided extensive assistance in drafting various legislative proposals, including the FS's partnership initiative and reauthorization of the Secure Rural Schools and Community Self-Determination Act of 2000, and various FS appropriations provisions. NRD continued to provide assistance in addressing legal issues concerning implementation of the administration's Healthy Forest Initiative and related matters. NRD assisted the FS Legislative Affairs staff in preparation for numerous Congressional hearings. The Conservation and Environment Division provided similar assistance to the NRCS on legislative proposals affecting the agency's programs and activities.

OGC has continued to work closely with the FS and the NRCS on real property matters. For example, OGC provided legal services to both agencies for the acquisition of lands and conservation easements under various programs, almost 500 easements under the Farm and Ranch Lands Protection Program for NRCS alone in fiscal year 2005. Numerous land transactions requiring the preparation of contracts, environmental compliance documents, land titles, and closing documents have occurred during the last year. OGC also provides legal services regarding access and rights of way to public lands, title claims and disputes, treaty rights, land appraisals and surveys, and other issues incident to the ownership and management of real property assets of the government. The agency's real estate practice is divided among its Washington DC office, which primarily handles legislative, regulatory,

and policy matters, and the regional and field offices which conduct most of the transactional work.

OGC has provided legal services on a number of significant issues concerning tribal relations. OGC assisted DOJ in the successful defense of suits alleging violations of the Religious Freedom Restoration Act and the Establishment Clause regarding land management activities in Arizona and Nevada. OGC provided substantial legal assistance regarding Federal laws, such as those concerning American Indian treaty rights and religious freedom, and historic and archaeological resource protection. OGC drafted legislation that would enhance FS tribal relations in areas involving access, use of forest products, and reburials of Indian remains. OGC assisted the FS in drafting regulations and guidelines to implement the Tribal Forest Protection Act of 2004. OGC also participated on FS sacred sites team, which is developing policy to protect tribal sacred sites on NFS land, as required under Executive Order 13007. OGC conducted trainings for FS employees in the field and Washington D.C. office regarding Indian law and tribal issues. OGC has provided legal services on a number of significant issues concerning tribal relations.

OGC counseled FS on a number of wilderness and wild and scenic river management issues, including representation in litigation and issuance of opinions involving commercial outfitter operations, placement of structures and installations, and management plan and protection requirements. OGC provided analysis of revisions to an agreement between the FS and a fish and wildlife organization representing States, addressing jurisdictional issues and agency decision-making authorities. OGC assisted with drafting and review of revisions to Forest Service Handbook (FSH) provisions pertaining to wilderness management and wild and scenic river evaluation procedures. OGC assisted with drafting and implementation of an appeal decision involving fishing and boating user conflicts on a designated river in South Carolina.

OGC has provided the FS extensive assistance regarding its cooperative authorities. In support of the FS's new Partnership Office, OGC drafted sections of the FS Partnership guide on ethics and conflict of interest. OGC also assisted the FS in drafting revisions to its FSH direction regarding the payment of overhead costs by FS cooperators. In addition, OGC advised the FS on drafting of numerous MOUs and cooperative agreements.

In the minerals area, OGC provided extensive assistance to the FS in promulgating a final rule clarifying when authorization is required before a person can commence mining on NFS lands under the United States mining laws. OGC has experienced an increase in demand for legal services as the FS undertakes program reviews and issues instructions due to the passage of the Energy Policy Act of 2005. OGC also provided significant assistance to the FS and DOJ in defending precedential litigation challenging minerals projects on NFS lands. OGC helped the FS by analyzing the implication of numerous legislative proposals on the disposal of minerals on NFS lands.

OGC provided extensive assistance to FS regarding hydroelectric licensing projects on NFS lands, including counseling FS regarding conditions on licenses, cost accounting requirements, and compliance with Federal Energy Regulatory Commission's (FERC) licensing procedures. OGC worked with counsel from the Departments of the Interior and Commerce to draft regulations in 90 days providing for expedited hearings involving challenges to conditions placed on hydropower licenses, as required under the Energy Policy Act of 2005. OGC provided guidance to the FS regarding the implications of the Energy legislation on the FS's conditioning authority, the information required to support filing of such conditions, and the hearing process that will occur before the Department of Agriculture's administrative law judges.

The Conservation and Environment Division (CED) provided legal advice and services to the NRCS regarding its programs for natural resource conservation on private or other non-Federal farm, range, pasture and nonindustrial forest lands, including programs authorized by the Food Security Act of 1985 and other statutory authorities. The 1985 Act, as amended in 2004, authorizes approximately \$17 billion in conservation funding for the 2002–2014 period. In total, NRCS received more than \$2.8 3.2 billion for natural resource conservation programs in fiscal year 2005, leading to an increase in requests for program related legal services. OGC provided legal counsel to the agency in developing new or revised regulations, standard form documents, and internal guidance needed to administer several conservation program authorities, such as the Conservation Security Program and the Farm and Ranch Lands Protection Conservation Program Technical Service Provider initiative. In addition, the administration of the Healthy Forest Reserve Program was transferred to NRCS from the FS in fiscal year 2005. OGC provided assistance in reviewing and drafting the regulation implementing that program. The following are

examples of natural resource conservation program areas where legal advice and services were provided by OGC to NRCS and the Department in fiscal year 20054: (1) publishing revised regulations for the Conservation Security Program which is authorized at \$6 billion in program funding through 2015; (2) negotiating and reviewing of cooperative agreements, conservation easements, and restoration agreements and/or providing title review across the easement programs and the purchase of several hundred conservation easements under the Grassland Reserve Program, the Emergency Watershed Protection Program, the Farm and Ranch Lands Protection Program, and the Wetland Reserve Program (WRP). As an example of the scope of this work, OGC has assisted NRCS in enrolling 146,111 1,633,3 acres into the Wetland Reserve Program through 907 easements or agreements. OGC provides title review for easement acquisitions as well as reviewing restoration contracts. It is anticipated that this program will continue to grow at an additional acreage increase of 150,000—200,000 acres per year; (3) assisting with enrolling 384,794 acres through 1,219 agreements in the Grassland Reserve Program, and 86,209 acres through 507 easement in the Farm and Ranch Lands Protection Program; and (4) providing training sessions for NRCS employees related to easement program implementation at two national meetings.

OGC also assisted the Department in reviewing and commenting on regulations promulgated by the Environmental Protection Agency (EPA) under the Clean Water Act for oil spill prevention and for point source pollution control as they relate to farms, and regulations under the Clean Air Act for the particulate matter. In addition, OGC assisted the Department in reviewing the Air Quality Compliance Agreement developed by EPA for animal feeding operations.

The CED Pollution Control Team (PCT) provided legal services and advice for all USDA agency matters related to the Resource Conservation and Recovery Act (RCRA) and Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). During the most recent fiscal year, the PCT negotiated with responsible parties to obtain substantial contributions to cleanup costs or cleanup work performed by responsible parties of more than \$24 million. OGC also provided advice on compliance with pollution control standards concerning USDA programs and facilities, and provided advice on hazardous materials liability in real property transactions. Specific PCT efforts on behalf of USDA on pollution control matters include the following: (1) OGC is continuing to provide legal support to the FS as the lead agency for the cleanup of 9 phosphate mine sites contaminated with selenium in Southeastern Idaho where total response costs to address selenium contamination are projected to run as high as \$225–450 million. This support includes negotiating Administrative Settlement Agreements and Orders on Consent and Consent Decrees with potentially responsible parties that conducted the phosphate mining under the Mineral Leasing Act; and (2) OGC continues to defend against claims concerning potential groundwater contamination by carbon tetrachloride used to fumigate grain at multiple former CCC grain storage facilities. OGC will continue to represent CCC in negotiating cleanup action at these affected sites. Such settlements will ensure appropriate response actions are taken to remediate aquifer contamination.

With the passage of the Forest Service Facilities Realignment and Enhancement Act of 2005 (FSFREA), OGC anticipates a significant increase in requests for advice from the FS on the disposal of surplus facilities as the FS reduces its operations and maintenance costs on surplus facilities by selling them. This new authority, which provides that an unlimited number of administrative sites may be conveyed, will require greater OGC allocation of effort to ensure that the facilities are transferred from Federal ownership in accordance with the necessary CERCLA Section 120(h) requirements.

GENERAL LAW DIVISION

The General Law Division (GLD) provides legal services to all agencies of the Department concerning those areas of law that apply generally to all agencies of the Federal Government. These services include, but are not limited to, the determination of claims filed under the Federal Tort Claims Act, personnel and labor matters, procurement, grants, fiscal law issues, and reviewing annually hundreds of Freedom of Information Act (FOIA) and Privacy Act appeals, each involving hundreds of pages of documents, in order to insure that the various agencies of the Department do not release or withhold documents inconsistent with applicable law. In addition, GLD attorneys assist DOJ with any litigation that arises in these and other areas, and represent the Department before the USDA Board of Contract Appeals and the Merit Systems Protection Board.

GLD also serves as legal counsel on program matters to specific client agencies in the Research, Education, and Economics (REE) mission area as well as Departmental Administration and staff offices such as the Office of the Chief Financial Officer (OCFO), Office of the Chief Information Officer (OCIO), the Office of the Chief Economist (OCE), and the National Appeals Division. As program counsel to the REE mission area, GLD commits significant resources to the interpretation of REE program authorities, review of proposed agreements, and counsel regarding the special relationship of the Department with land-grant colleges and universities. As an example of work for staff offices, GLD has worked closely with in drafting item designation and labeling rules for the Federal Biobased Products Preferred Procurement Program that will be published in 2006.

During the past fiscal year, GLD worked closely with employees and officials of APHIS and other Departmental officials regarding the confidentiality and releasability issues posed by the creation of a National Animal Identification System (NAIS). Since the Secretary announced that the NAIS should be maintained as a private system that can be accessed by State and Federal officials, we continue to be involved in advising APHIS regarding the potential applicability of FOIA to records in a privately maintained system. In connection with the BSE surveillance program, GLD also provided APHIS with extensive support with respect to interpretation of agreements and procurement contracts for equipment and sample collection, including defense in protest litigation.

Also during the past fiscal year, GLD attorneys provided significant legal resources advising policy officials on election reform for FSA County Committees pursuant to section 10708 of the Farm Security and Rural Investment Act of 2002. GLD continues to advise FSA regarding various issues related to the county committee election process, as well as proposed regulations implementing the process.

GLD provided extensive advice to OCFO in the past year with respect to employment matters related to the reduction in Thrift Savings Plan work and with respect to the evacuation of the National Finance Center from New Orleans due to Hurricane Katrina. GLD also worked closely with the Office of Procurement and Property Management and other agencies in providing support for procurement and other response and recovery actions taken in response to Hurricanes Katrina.

GLD continues to provide legal advice, and contract protest litigation defense, for the consolidation of Federal agency recreational reservation systems into the USDA FS and United States Army Corps of Engineers National Recreation Reservation Service as part of the Recreation One Stop Initiative. GLD also defended multiple protests against the FS award of 5-year national contracts for catering services for firefighters.

LITIGATION DIVISION

Litigation Division attorneys, in cooperation with attorneys from DOJ and other divisions in OGC, presented USDA's position in appellate courts. These efforts included providing assistance to the Office of the Solicitor General and DOJ counsel, who represented USDA before the Supreme Court in *Veneman v. Livestock Marketing Association*, arguing that Congressionally-mandated assessments for generic advertising for beef research and promotion programs do not violate the First Amendment speech rights of cattle producers who disagree with the content of the advertisements. The Supreme Court issued an opinion which agreed with the position taken by the Department. In addition, our attorneys assisted DOJ attorneys in presenting, in the Courts of Appeals and the Supreme Court, arguments in cases addressing similar programs for pork and dairy products, which also have now been successfully resolved.

The Litigation Division assisted DOJ attorneys in winning a reversal by the Sixth Circuit of an adverse district court decision invalidating the Attorney General's decision pursuant to the Westfall Act, 28 U.S.C. 2679(d)(1), to certify that a FS employee was acting within the scope of his employment when the employee denied that the allegations of the plaintiff's claim were true; and also assisted DOJ in representing the Secretary before the District of Columbia Circuit in a case addressing whether a party can receive attorneys' fees and costs under the Equal Access to Justice Act when the party has won a preliminary injunction against the United States, but not a final decision on the merits of the lawsuit. Litigation Division attorneys also assisted DOJ in representing the Secretary before the Federal Circuit in a case addressing the basis for a contract default termination and the subsequent award of damages to the contractor; and assisted DOJ in defending before the First Circuit the Secretary's National Organic Final Rule, 7 C.F.R. Part 205, promulgated pursuant to the Organic Foods Production Act of 1990, 7 U.S.C. §§ 6501-6523. In addition, actions on other cases handled by Litigation Division attorneys include: (a) the

District of Columbia Circuit upheld the authority of the Department to interpret legislation and set interest rates for sugar loans; (b) the District of Columbia Circuit upheld the Secretary's adverse administrative action against a company licensed under the PACA after an employee of the company was convicted of criminal charges related to inspections of the company's produce; and (c) the Sixth Circuit upheld the Secretary's administrative action against a horse trainer found to have violated the Horse Protection Act, 15 U.S.C. §§ 1821–1831.

LEGISLATION DIVISION

During fiscal year 2005, OGC reviewed approximately 260 legislative reports on bills introduced in Congress or proposed by the Administration, and cleared for legal sufficiency written testimony of approximately 380 witnesses testifying on behalf of the administration before Congressional committees. The Division provided extensive assistance to USDA policy officials in drafting and analyzing legislative proposals and amendments, and coordinated the legal review for USDA in the clearance of legislation and ancillary legislative materials. The Division drafted or provided technical assistance in the preparation of bills and amendments for the Secretary, members of Congress, Congressional committees, Senate and House Offices of Legislative Counsel, and agencies within USDA, including the: (1) Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act for fiscal year 2006, Public Law 109–97; (2) Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico and Pandemic Influenza, 2006, Division B, Department of Defense Appropriations Act for fiscal year 2006, H.R. 2863; (3) Deficit Reduction Act of 2005, S.1932, H.R. 4241; and (4) legislation to protect the confidentiality of information collected in the developing Livestock Identification System.

CIVIL RIGHTS

For over 8 years, USDA has engaged in massive efforts to reform its civil rights performance. Critical to the achievement of these goals was the creation, in 1998, of the Civil Rights Division (CRD) within OGC. Recently, the Civil Rights Division reorganized into two distinct divisions; the Civil Rights Litigation Division (CRLD) and the Civil Rights Policy, Compliance and Counsel Division (CRPCCD). Staffed with attorneys with specialized expertise in civil rights and Equal Employment Opportunity (EEO) law, CRLD and CRPCCD maintain an extraordinarily diverse workload servicing the civil rights needs of the Secretary and USDA's agencies and staff offices.

CRLD's litigation duties include 5 active program class actions in Federal District Court and 8 active employment class actions, most of which are pending before the Equal Employment Opportunity Commission (EEOC). The requested damages in these class actions total over \$45 billion. In addition, CRLD anticipates adding at least 1 new employment class action in the coming year to its litigation workload.

USDA continues to implement the April 14, 1999, consent decree in *Pigford v. Johanns*, originally, *Pigford v. Glickman* (*Pigford*). The *Pigford* complaint was filed in 1997 on behalf of African American farmers alleging racial discrimination in farm lending and benefit programs. The consent decree provided a framework which assigned tasks and time frames to specific parties to resolve the claims. Under the Consent Decree framework, claimants determined by the Facilitator to be members of the class could choose one of two "tracks" for processing their claims.

Most claimants have chosen the more streamlined Track A which allows the claimant to submit a claim form upon which the Adjudicator issues a decision. A successful Track A claimant may receive a blanket payment of \$50,000, plus loan forgiveness. Under Track B, those who believe they have evidence of extreme wrongdoing go before an Arbitrator to seek larger damages.

As of January 31, 2006, 64 percent of the 22,244 Track A claims submitted to the Adjudicator were decided in favor of claimants. The government has paid approximately \$685 million to 14,297 prevailing Track A claimants. In addition, USDA has provided approximately \$22 million in debt relief to over 1,341 prevailing claimants.

CRLD has taken the lead in ensuring that USDA meets its commitments under the consent decree, by coordinating the production of relevant documents, providing necessary legal analyses, and ensuring USDA's compliance with Adjudicator and Arbitrator decisions. CRLD is working with FSA and the DOJ to develop timely and appropriate government responses to claims filed by eligible farmers. CRLD also plays a major role in the appeals process, which allows petitions to a Monitor to reevaluate claims.

Key to settlement of the *Pigford* action was the 1998 enactment of the waiver of the Equal Credit Opportunity Act's statute of limitations that allows farmers with

long-standing discrimination complaints to have their claims finally heard. CRLD and OGC field offices have represented USDA in over 130 cases in which a hearing was requested; the vast majority were dismissed on motions filed by OGC. With respect to farmer discrimination claims not covered by the Pigford settlement, CRLD works with the USDA Office of Civil Rights (CR) to ensure that all claims receive expeditious and fair consideration, within the bounds set by applicable law.

CRLD also coordinates USDA's defense in 4 other program class actions in Federal District Court. These cases include 3 class actions, *Keepseagle v. Johanns*, *Garcia v. Johanns*, and *Love v. Johanns*, all originally filed by the same attorneys that initiated the Pigford litigation. To date, the *Keepseagle* case is furthest along in litigation and may be the best predictor for the outcome of the other cases. Despite a vigorous defense, District Judge Emmet G. Sullivan certified the *Keepseagle* class to include all Native American farmers or ranchers, who (1) farmed or ranched between January 1, 1981 and November 24, 1999; (2) applied to the USDA for participation in a Federal program during that time period; and (3) filed a discrimination complaint with the USDA individually or through a representative during the time period. The *Keepseagle* case is proceeding through lengthy and comprehensive discovery on the merits which has, to date, resulted in the production of nearly 400,000 pages of documents to the Plaintiffs.

The *Garcia* and *Love* class actions were brought on behalf of Hispanic farmers and female farmers respectively, alleging discrimination in the administration of farm credit and disaster benefit programs. In September 2004, the D.C. District Court denied class certification in both cases. However, in December 2004, the U.S. Court of Appeals, D.C. Circuit, granted Plaintiffs' petitions to file appeals. In July 2005, the Circuit Court issued a consolidated briefing schedule for both cases that concluded in November 2005. Oral argument was held on February 6, 2006. On March 3, 2006, the Court of Appeals for the D.C. Circuit affirmed the District Court's denial of class certification in *Love*.

The remaining program class action is *Chiang v. Johanns*, filed on behalf of all black citizens or qualified aliens who reside in the U.S. Virgin Islands alleging discrimination in the access to and participation in RD programs for credit, assistance, training, educational opportunities, housing, or home ownership. The *Chiang* class was certified by the District Court in the Virgin Islands and is proceeding on the merits. In response to the government's appeal of class certification, the Third Circuit limited the class definition to Virgin Islanders. In September 2005, the parties participated in mandatory mediation but were unable to resolve the litigation. The parties are now proceeding through discovery on the merits.

CRLD provides primary litigation defense services in all employment class actions pending before EEOC. Since August of 2000, as a result of CRLD's vigorous defense, EEOC has dismissed over 20 class action employment complaints for failing to meet the legal standards for class certification.

Currently, CRLD is involved in 8 active employment class actions. To date, CRLD is actively litigating 4 of these complaints. CRLD seeks to resolve those matters that, upon careful review, indicate a need to address apparent underrepresentation or policies that may have an adverse impact on a particular group of employees. For example, CRLD has assisted DOJ in negotiating settlements in 2 major class actions filed by employees of the FS Region 5, *Donnelly* and *Regional Hispanic Working Group (RHWG)/Brionez*. The *Donnelly* consent decree expired in January 2006. There was a contempt hearing in *RHWG/Brionez* on February 10, 2006. The Court issued a brief order the next day, to be followed by a comprehensive opinion, which extended the Settlement Agreement for one year.

CRLD also carries a full docket of over 50 complex and politically sensitive individual Equal Employment Opportunity (EEO) cases involving either issues of first impression or disputes over positions at the highest levels within USDA. CRLD litigates these cases on behalf of USDA without the assistance of DOJ. Moreover, recent years have seen a dramatic increase in the demand for CRLD's litigation services in a number of formal individual EEO complaints previously defended by non-attorney agency personnel staff. CRLD's litigation responsibilities also have expanded as a result of several changes in the law, including a 1999 Supreme Court decision holding that EEOC possesses the legal authority to require Federal agencies to pay compensatory damages in EEO cases.

In addition to its primary litigation responsibilities, CRLD currently assists DOJ in the litigation of over 50 additional individual civil rights cases in both the employment and program areas pending in Federal district court. Although the Assistant U.S. Attorneys (AUSAs) and/or DOJ attorneys serve as lead counsel, CRLD is receiving an increasing number of requests for comprehensive litigation support, including drafting answers, dispositive motions, discovery responses; deposition participation; and witness preparation.

The newly created CRPCCD provides advice and counsel to agency components on civil rights issues, including: (1) completing an impressive number of legal sufficiency reviews and legal opinions each year; (2) providing daily, informal legal advice to the client agencies; and (3) providing periodic training on civil rights issues. CRPCCD is also responsible for providing advice and assisting in the early resolution of informal EEO matters.

In an average month, CRPCCD staff write at least 25 formal and informal opinions in response to, or in anticipation of, inquiries on a wide variety of civil rights topics. This advice is an essential element in CRPCCD's proactive relationship with its client agencies. CRPCCD anticipates that the demand for these services will only intensify. For example, CRPCCD continues to receive an increasing number of requests for advice on reasonable accommodation for employees with disabilities and program accessibility for customers with disabilities. In addition, CRPCCD receives numerous inquiries regarding the proper interpretation and application of Executive Order 13166 requiring agencies to ensure that customers with limited English proficiency have access to USDA programs. CRPCCD's formal policy responsibilities are on the rise as well. CRPCCD has been working with the Assistant Secretary for Civil Rights to develop a Departmental Regulation on alternative dispute resolution (ADR). In addition, CRPCCD reviews civil rights impact analyses of all major reorganizations throughout the Department.

In recent months, CRPCCD has also received an increasing number of requests for training presentations. CRPCCD has provided training to numerous agencies on issues such as reprisal, ADR, and reasonable accommodations.

FISCAL YEAR 2007 BUDGET REQUEST

For fiscal year 2007, the budget proposes a total of \$40,647,000 for OGC salaries and expenses. This is an increase of \$1,690,000 over the adjusted base for fiscal year 2006. This amount includes \$515,000 to maintain staffing levels and \$791,000 for pay costs. This critically important increase is needed to support and maintain current staffing levels to meet the current and projected increased demand in delivering predecisional legal advice, training, and litigation legal services to agencies. Approximately 92 percent of OGC's budget is in support of personnel compensation, which leaves no flexibility for absorbing promotions, within-grade and pay cost increases.

An increase of \$384,000 and 5 staff years is requested to support significant workload increases in several areas of the office. Attorney staff years are needed to assist APHIS in addressing major animal health and food safety issues of the Department. There is a strong demand to add an additional attorney to support the farm loan and crop insurance programs, as well as an additional attorney to face the challenges in the areas of contracts, procurement, and outsourcing of Federal functions. Additional legal resources are also needed in OGC's Kansas City office in the areas of farm and loan programs, bankruptcy, risk management and contract law and also in OGC's San Francisco office to handle class action EEO complaints arising out of the activities of the FS Region 5 headquartered in Vallejo, California.

CLOSING

That concludes my statement. We very much appreciate the support the Subcommittee has given us in the past. Thank you.

Senator BENNETT. Thank you very much, Mr. Secretary.

We have been joined by Senator Burns, who has another commitment that is going to take him out of here in about 3 minutes. So if there is no objection, I would yield my time to Senator Burns before we turn to Senator Kohl. Then we will go to Senator Craig, and I will come in at the end, rather than the beginning.

Senator BURNS. Did you ask Senator Kohl about that?

Senator BENNETT. Well, I said if there is no objection, and I didn't hear a grunt from him.

Senator BURNS. I am not going to upstage my Ranking Member, I will tell you that. I know where I am on the pecking order.

So I have just got a couple of comments. And Mr. Secretary, thank you very much and all the work that you have done. And I think you know out of this \$97 billion, or whatever it is number that we got, I was interested in how much of that money goes out

in direct payments to farmers in subsidies, and only around \$25 billion.

We do a lot of things that they said, well, you spend \$97 billion on farmers. Well, we don't spend \$97 billion on farmers. There are a lot of programs that are very, very important, and conservation being one of those and a lot of things. And some of those dollars do make it down to agriculture that is not counted directly to the commodity support.

Mr. Secretary, we are still concerned about the Japanese beef thing. I know you continue to work on that, and any good news that you give us would be welcome. If you have got bad news, well, we will just let that slide. But I would want some comment on that.

And then the second question, we are having difficulties with high energy prices, and we can't get our arm around our production costs. Energy being one of those, both in our fuels, in our fertilizer with natural gas being high and being the feed stock, the fertilizer.

We see another increase coming in fertilizer. We hear our producers are cutting back about a third of the fertilizer that is going on the ground this year because they just can't afford it, and that concerns me.

And your move to be a producer kind of advocate, the EPA again over there—I wish you would have somebody to take a look—because by changing definitions of what is happening that the EPA changes has a huge impact on our producers, especially in confined feeding and the way we handle chemicals and the way we do things.

A change of definitions has a huge impact on the costs we are having on the farm and ranch. And that appears to be happening over there, and we have got to take note of that and to work very closely with those groups that the impact on agriculture and our ability to produce food and fiber of this country is very, very important. You might want to comment on that.

And then the third one is that with the new technologies, I think we are going to put agriculture in the energy business. That was the drive in 2002. It was the drive in 2005, when we passed the energy bill because of renewables and alternative fuels, and it seems to be working. And I think we are going to have to have a strong title in the 2007, especially with the advances we have made in technology, in plant residue, in the biomass area.

We know that the production of ethanol and biodiesel is going to be very important. So agriculture is going to be in the energy business. And it needs to be because we need to increase our independence away from foreign oil, and if we can get our capacity of those alternative fuels up, we can deal with that along.

And the other night, we were on a television show on RFD-TV with Secretary Dorr. We continue in the rural communities, the cornerstone to their growth is still broadband deployment and telecommunications because we cannot compete in the national economy or the international economy unless we can move massive amounts of information from our smaller towns and rural villages.

So you might want to comment on that, and the Japanese situation, and then also the situation of working with the EPA to make sure that these definitions don't have a high impact on us.

BEEF EXPORTS TO JAPAN

Secretary JOHANNES. In reference to Japan, I can assure you I don't have any bad news. So I can start there.

Let me also say, Senator, how much we appreciate your tenacity relative to this issue. We can explain that to the Japanese, but it speaks volumes when House Members and Senators publicly explain how important this market is and the need to have it reopened. So we appreciate that.

The report, regarding the ineligible shipment of veal to Japan is done. We did a very thorough investigation. We even went the extra step and invited the inspector general to take a look at the findings in the report. There were actually two investigation reports submitted to Japan. We have been receiving questions from Japan. About half of those questions are answered already. We are not taking any extra time. We are getting those questions answered and back on their desk.

This weekend, I will have an opportunity to meet with Minister Nakagawa, who is my equivalent in Japan. I am very anxious to sit down with him. Our report has 475 pages. There was a lot of work put into it and I can assure you what we found out was that there was no attempt to hide anything here. There was just simply confusion on both sides.

We had an e-mail trail that showed that the person making the order from Japan was confused about what was authorized. It is listed right there in the e-mail. And the plant was confused also.

Now I don't offer that as an excuse, but we have a rather complicated agreement with Japan. So I am optimistic. They are probably going to have some additional inspection requirements. That is not a big issue for us. We will facilitate their requirements and get them in plants. My goal is to get this beef market reopened again just as quickly as we can.

I don't really see any reason for extensive delay. We have got the investigation done. We can answer their questions. We will meet their requirements, and I think it is time to get beef moving back to Japan again.

RENEWABLE ENERGY

In terms of renewable energy, I agree with your assessment. I do believe that as we think about farm policy for the future, a strong energy component for agriculture is critical. The news is very good.

We estimate 22 percent of corn crops will be processed into ethanol by 2010. It is currently 14 percent. So we just continue to see dramatic increases there.

Biodiesel, soybeans to biodiesel. Again, we just continue to see very dramatic growth in that area. There are also other biomass products that aren't as far along. And then there are still other areas, like wind energy to be developed.

In terms of your comments about working with the EPA, we have got a good working relationship with them. I will pass on to them whatever issues you have on your mind, and I would be happy to facilitate a meeting, too, where we can sit down with you or other members of this subcommittee and deal with those issues.

ENERGY COSTS

Energy costs are a big issue among farmers and ranchers. We heard about it in our Farm Bill forums. We do have some really promising things going on out there. We designed an energy strategy, and we have had a good response to it. It is an online system in part, so producers can figure out how they might save some energy costs, some nitrogen application costs, and then I directed the USDA to do everything we can to move money that we have available into this area of energy assistance and provide grants and loans to try to help with projects related to energy.

I wish I could tell you that I could bring the price of a barrel of oil down to \$35, but I probably can't. But everything we can do at the USDA we have been doing to provide energy assistance.

Senator BURNS. If we could get a bushel of wheat to \$6, you could offset it on that end, too.

Secretary JOHANNIS. That solves the problem, too, doesn't it?

Senator BURNS. You know, there are a lot of ways to offset this.

I thank the Chairman for his courtesy, and thank you, Senator Kohl. I appreciate that very much.

Senator BENNETT. Senator Kohl? No, you go ahead. I will take Senator Burns spot.

Senator KOHL. All right. Thank you, Mr. Chairman.

DAIRY POLICY

Mr. Secretary, dairy annually generates over half of Wisconsin's cash farm receipts, and last year about \$20.5 billion of economic activity in our State. So anything that disproportionately affects dairy and cheese disproportionately affects our entire State.

I am sure you can appreciate then my profound disappointment that the President's budget seems to have it in for dairy. First, it seeks a 5 percent across the board reduction of all commodity payments to farmers. Second, it re-proposes a statutory mechanism for adjusting the butter/powder tilt in the dairy support program, the practical effect of which will reduce value to producers. And third, it recommends a 3 cent per hundredweight farmer assessment on all milk, which would have totaled about \$7 million for Wisconsin producers last year.

Earlier this week, a bipartisan group of senators joined me in a letter to the Senate Budget Committee urging rejection of this attack on dairy farmers.

Now I know you do not put together the entire budget, but does it make sense, Mr. Johannis, to you in a budget that includes billions of dollars in tax cuts for investors that you are being asked to fight for a tax increase on dairy farmers? And is that really the policy that you are asking us to support?

Secretary JOHANNIS. I support the President's budget, as you might expect, Senator. And that probably comes as no surprise to anybody in this room.

But let me, if I may, just try to identify some of the things that have stood out for me as I have worked on what is really my first opportunity to be involved in the budget process from start to finish.

I hear your comments about the tax decreases, and what I would offer is that if you look at the revenue situation, revenues actually increased for the United States. What you are seeing is that those tax decreases, which really did apply across the board, improve the economy.

I have worked around government budgets long enough to know that there are number of factors that you consider in trying to put a budget together and trying to decide what level of taxation you should place upon your citizens. If the level of taxation placed upon citizens is too high, you are going to depress the economy, whether that is a State economy or a national economy. What we saw is revenues actually increased, and our budget people can give you specific numbers on that.

[The information follows:]

As a direct result of this strong economic growth, receipts to the Treasury have returned to healthy growth in the past 2 years, with increases of 5.5 percent in 2004 and an extraordinary 14.5 percent in 2005, more than 5 percentage points above the projection in last year's Budget. Growth in corporate receipts in 2005 was an astounding 47 percent. Total receipts reached 17.5 percent of GDP, up from a low of 16.3 percent of GDP in 2004. The administration projects that receipts will increase 6.1 percent in 2006 and an average of 5.9 percent annually through 2011. This cautious forecast is far slower than the 14.5 percent growth experienced in 2005, but still faster than the projected rate of economic growth.

REDUCING THE FEDERAL DEFICIT

Secretary JOHANNES. Now in reference to the situation relative to dairy, what we were trying to do is figure out a way to make these adjustments, whether it is a commodity program or the dairy program, recognizing that we have to deal with the Federal deficit, not in a way that picked on dairy, but in a way that we thought was fair to commodity programs whether you are a dairy farmer or a corn farmer or a soybean farmer.

That is how we came up with this approach and this formula basically implies that in every area, we are going to make some adjustments to deal with the situation of having to reduce the deficit.

So that is the philosophy behind it, Senator, and we may disagree on the approach. I hope we share the same goal of recognizing that somehow, some way we have got to deal with the Federal deficit.

Senator KOHL. One other question, and then I will defer to our Chairman.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Mr. Secretary, in Wisconsin alone, nearly 700 senior citizens are being turned away from the Commodity Supplemental Food Program this year, and well over 5,000 people are going to lose these food packages if we eliminate the program, which is what the budget proposes. Nationwide, the budget proposes to stop the CSFP food packages that are being delivered to 470,000 people, most of whom are seniors.

Many seniors, estimates go as high as 25 percent participating in CSFP, also participate in the Food Stamp Program because their Food Stamp benefit is too low to live on. I keep hearing about \$10 a month. So, Mr. Secretary, do you have some advice for these people?

Secretary JOHANNES. I have some thoughts on the CSFP program. It is an interesting program to study, Senator, from this standpoint. This is not a national program. It is a program that exists only in 32 States. Two Native American tribes, I believe, have the program also. But, it is not even national in terms of the tribes, and I believe we also have the program in the District of Columbia.

The other interesting thing about the program is that even in the 32 States, it is not a statewide program. It is literally identified for certain areas, with certain States left out and certain parts of States that are left out. We have included in our budget request \$2 million for the transition from CSFP to the Food Stamp Program.

It is our belief that the people that receive the benefits of this food box will qualify for some other part of our nutrition programs—Food Stamps, maybe even WIC. We know who these people are. Our goal is to reach out and identify them and get them signed up for another nutrition program that we have.

But again, as you study this program, it is a very interesting program. I am not arguing that people who receive these benefits don't enjoy them, but it is a program that never even got implemented statewide in the 32 States where it currently operates. We believe that with the \$2 million transition money, that we can serve these people with nutrition programs that we actually have in existence across the entire country.

Senator KOHL. As you can imagine, I am not satisfied with your answer, but—

Secretary JOHANNES. I understand.

Senator KOHL [continuing]. I appreciate that very much. And Mr. Chairman, it is up to you.

Senator BENNETT. Thank you very much.

Senator CRAIG. Then I will take Senator Burns slot.

Senator CRAIG. Okay. Thank you. Thank you for that courtesy.

I have several questions here. I will ask some, Mr. Chairman, and submit others for the record.

MILK INCOME LOSS CONTRACT

Senator Kohl, Mr. Secretary, expressed concern about dairy. As you know, Congress recently passed the \$1 billion 2-year extension of the Milk Income Loss Contract, or milk program, in the budget deficit reduction act.

The administration backed the extension of this subsidy program during the budget reconciliation debate this past year. Your 2007 budget seeks an assessment of 3 cents per hundredweight on milk produced by our dairymen in order to save \$578 million over 10. Additionally, the 2007 budget seeks to reduce milk subsidy payments to dairy producers by 5 percent and to better manage the Dairy Price Support Program.

So the administration backed a billion dollar extension of a discriminatory milk subsidy program. That is how my producers in Idaho see it. By law was intended to sunset in 2005. But you know, once you create these things, dependency hangs in there, and we now believe it is causing overproduction.

The milk program encourages overproduction. It certainly doesn't encourage movement with the market. So what doesn't add up here?

Secretary JOHANNES. Well, in the last few months, we have started to pay out again under the MILC program. That is a reflection of production up, prices down. I mean, that is, in effect, what kicks in with the MILC program when you hit a certain price level.

We have supported the MILC program. The thought I would offer, in terms of that extension, is that the extension tied the program to the life of the Farm Bill and, in effect, joined it with other commodity programs that were out there.

Next year, it is my hope that we will have a debate on farm policy and what farm policy should look like because 2007 is the year that we reauthorize the Farm Bill. And I believe it is an opportunity for us to look at all of our programs and make a decision about how best to approach them.

As I explained or offered to Senator Kohl, we have made adjustments to the MILC program. As we looked at the need to deal with the deficit, we did not feel that we could leave any program out. And so, this was a way of making adjustments in that program that we hoped, at least, would reflect the changes that we are making in other commodity programs.

The wheat growers in the Western part of the United States, for example, are going to get 5 percent less if the President's budget is approved. So we basically looked at the MILC program and said how do we make an adjustment there that at least reflects what we are doing in the other commodity programs?

But just to summarize, Senator, the thought about the MILC program extension was along the lines of if you extend it for the life of the Farm Bill, you join it with the other commodity programs in the Farm Bill, and it is in the Farm Bill, where you decide what you want to do with the whole commodity title and farm programs in general.

Senator CRAIG. Mr. Chairman, one last question. And thank you for that answer, Mr. Secretary.

RENEWABLE ENERGY

Section 9006 of the 2002 Farm Bill provides for loans, loan guarantees, and grants to farmers and small businesses for projects that use renewable resources to create energy. This provision has gotten a lot of attention in Idaho. Some of those loans and guarantees have been provided, and it is working.

And I think we are all quite impressed with the challenges farmers are stepping up to dealing with animal waste and crop refuse. You heard the senator from Montana talk about a variety of aspects of it. You have talked about biodiesel. Cellulose ethanol is something that is being looked at now. The President has spoken to it in his State of the Union.

Even though this program is a win-win for agriculture, the environment, and the production of energy at a time when energy production is not adequate—and we all really do believe that a decade from now or two or three, American agriculture is going to be a sizable producer of energy for our country—why did you cut that budget? It was small to begin with. You cut it from \$23 million to

\$10 million. It just doesn't seem to fit the arguments you have placed before this committee.

Secretary JOHANNIS. Senator, let me, if I could, quickly walk you through what we have for renewable energy in the budget. The 2007 budget provides funding to support about \$35 million for guaranteed renewable energy loans. The estimate for 2006 is \$177 million in loans. However, it is unlikely that that amount will be made.

The 2007 budget provides nearly \$8 million to award grants for use on renewable energy. This funding is about \$3 million less, and we acknowledge that. However, the 2007 budget provides about a billion dollars in guaranteed loans under the Rural Business-Cooperative Service's business and industry program. This program can be used for financing renewable energy projects.

So when you pull together the constellation of authority we have to assist through loans, guaranteed loans, and grants, it is a substantial, renewable energy package that we submitted to Congress.

Also, when I was governor of Nebraska, I was the vice chair of the Governor's Ethanol Coalition, and I was the chairman of the Governor's Ethanol Coalition following Governor Tom Vilsack from Iowa. One of the things that I talked about during that period of time was that the standard of success in renewable energy is when it becomes economically self-sufficient, and we should celebrate that day.

Now there is probably a debate about whether we are far enough along here. But I will tell you that in the ethanol industry, corn to ethanol, it has been a remarkable 12 to 24 months. I mean truly remarkable.

As a governor, I worked on financing for a number of ethanol plants, and we just never would have predicted the return on investment that I think you are seeing in some of these areas. Every plant is different. Every area is different. But the goal should be that we work toward energy production or we work toward economic independence in these projects. In some areas, like I said, it has been a remarkable few years.

When you put all of that together, and you identify and pull together the constellation of what we have available, we think we can do some very, very exciting things in the renewable energy area, and we look forward to working with your staff and with you, sir, to make that happen.

Senator CRAIG. Well, thank you very much. I think you recognize as well as I because you have obviously worked in that field at a time when it was almost considered an experimental start-up industry.

One of the great difficulties we have in agriculture today—or anywhere, but especially agriculture—is when a new technology comes along, trying to put some capital behind it, to get it out on the ground and working so that from there grows changes and evolutions that make it increasingly more efficient.

Frankly, if Government hadn't come along and subsidized ethanol when it did, we would not be where we are. And as a result of that, while I am not too excited about subsidies, it appears that is one that is probably going to work. It is on its own now, and you

are right. It is all but standing alone, and it gets increasingly efficient and more productive and, therefore, profitable.

Thank you.

Secretary JOHANNES. The energy policies of Congress worked. Let me just be very clear about that. Sometimes I think we wonder, is this going to make a difference? This made a huge difference.

What you are now seeing across the country is that Wall Street has discovered rural America.

Senator CRAIG. Yes.

Secretary JOHANNES. There is big debate about that. But quite honestly, Wall Street is beginning to realize this is a sound investment. But I will submit that through the efforts of the President and Congress, that is what led the way.

Senator CRAIG. Thank you.

Thank you, Mr. Chairman.

Senator BENNETT. Thank you.

AVIAN INFLUENZA

Mr. Secretary, in your opening statement, you talked about avian flu. I would like to focus on that just a little more because I think that is one of the things that people who are watching are concerned about.

In your opinion, how prepared is the United States agriculture for an avian flu outbreak?

Secretary JOHANNES. My opinion, I believe we are well prepared. I say that for a number of reasons. One is that the funding, which Congress approved, which the President sought, is there, and that is helping us do a lot of really good things.

But the other thing that I will share with you from our standpoint at the USDA, first of all, it is important to remind everyone that low path avian influenza is nothing new to the United States. It has been here 100 years. Birds have a flu season much like humans do. They pass through it every year. Typically, you don't even notice it.

High path avian influenza, we have dealt with that, in fact, on three occasions. The most recent occasion was in 2004.

We have a plan in place. We have surveillance in place. We have testing in place. As we have worked to expand testing capabilities, I can now tell you that we have those capabilities in 32 States, with 39 labs approved for AI testing. So we can identify where AI is domestically.

But we feel ready. The other thing I will mention to you, is that we are not taking anything for granted. The President has led a Government-wide effort in AI. And more specifically at USDA, just within the last week, we have tabletopped our response to identify any areas where we see weaknesses. We are preparing like avian influenza is going to be here.

Senator BENNETT. Have you used the \$91 million in the supplemental?

Secretary JOHANNES. Yes, we are using those funds in a number of ways. One is we are assisting overseas. When foreign governments ask for technical assistance, part of that money helps us do that. We send people out to offer technical assistance. We work with our international partners.

As you might expect, some countries are better prepared than others. It is just simply a case where some countries don't have the infrastructure or the resources to be very well prepared. That is not true in other countries. So it is a little bit of a mixed bag.

We are also using that money for additional surveillance and research to enhance our capability to respond to avian influenza. We can give you a very detailed summary of how the money is being allocated.

[The information follows:]

PLANNED USE OF PANDEMIC INFLUENZA FUNDS

With \$71.5 million appropriated to it and an additional \$8.8 million from the Office of the Secretary, APHIS plans to devote funds to both international and domestic efforts. These include:

- \$17.8 million for overseas in-country technical training and veterinary capacity building;
- \$16.4 million for domestic wildlife surveillance in migratory flyways and wild-fowl;
- \$26.8 million for domestic surveillance and diagnostics (e.g., State cooperative agreements for surveillance in live bird markets, upland game and waterfowl, commercial poultry operations; laboratory support; anti-smuggling efforts; training; outreach; other activities);
- \$19.3 million for domestic emergency preparedness (e.g., supplies and animal vaccines for the National Veterinary Stockpile (NVS); development of scenario models to direct efficient NVS acquisitions; preparedness training for State Incident Management Teams and the Veterinary Reserve Corps; related efforts).

With \$7 million appropriated to it, ARS plans to conduct research as follows:

- \$3 million for improved vaccines and mass immunization in domestic and wild birds;
- \$1 million for environmental surveillance methodology of avian influenza (AI) in commercial and wild birds;
- \$2 million for complete genome sequencing of outbreak AI viruses; and,
- \$1 million for biosecurity against virus transmission between and within farms.

With \$1.5 million appropriated to it, CSREES plans to conduct expanded AI surveillance in the Pacific flyway and associated activities.

The following funds from the Office of the Secretary will be used for other needs:

- \$1.8 million for FAS to support the FAO, provide complementary overseas foreign surveillance, diagnostic, and other support;
- \$0.5 million for the Office of Communications to develop a variety of brochures, posters, videos, and for other initiatives to effectively communicate with the public;
- \$0.2 million for FSIS to develop a highly pathogenic AI module for its Non-routine Incident Management System to enable the agency to respond to an AI detection effectively and in a timely manner; and,
- \$0.1 million for Departmental Administration to revise its Continuity of Operations Plan to help ensure the Department maintains essential functions and services in the event of significant and sustained absenteeism.

Secretary JOHANNES. So we have identified the key areas, and we have allocated those funds in a way that will boost our response in those areas.

Senator BENNETT. Very good. This is a nitpick, but it is the kind of thing that people pick up. I will use the inflammatory language, and then let you get to the more specifics. But this is the kind of thing that makes for headlines.

CENTRAL ADMINISTRATION FUNDING

You have cut discretionary funding for rural development by 13 percent. You have cut conservation by 20 percent. You cut research by 14 percent. But the spending for central administration has gone up by 12 percent. Now when I look at the chart with all of that on it, I realize that that is the smallest base. So adding \$63

million to central administration is, percentage wise, a pretty big jump.

But I hope you can explain to the committee why you need to go up in central administration and how the taxpayer is going to get a return for that over the long term in view of the other cuts that you have recommended?

Secretary JOHANNIS. Mr. Chairman, that is a really excellent question, and I must admit I did not analyze the individual areas that way in terms of central administration.

Senator BENNETT. Neither did I, but I have a very eagle-eyed staff.

Secretary JOHANNIS. And I have got a very eagle-eyed budget director, and I am going to let him offer a few thoughts on why you are seeing that impact.

Mr. STEELE. Thank you, Mr. Secretary.

Mr. Chairman, we have included in our budget pay costs for all of our agencies, according to what the President is going to request. I think it is a 2.2 percent increase in pay costs across the board for all agencies.

The other area in administrative costs that we are dealing with is IT expenditures. Throughout the Department of Agriculture, we have a number of systems in the Department that need enhanced funding. We really appreciate the funding that the Committee has provided us in the past to help modernize these systems. But there is still a large number of systems that we are asking for increased funding to get them up to standard.

One of these areas is in the Farm Service Agency. The Common Computing Environment (CCE) has received substantial funding, but there are a lot of legacy systems that we have out in the field that utilize old software systems. We need to update those and migrate them onto this new Common Computing Environment so we can all use them efficiently.

Throughout the department, we can give other examples of those kinds of issues. We also have some issues in the financial area. We have to start looking at our foundation financial systems that we have. Some of those are outdated, and we have some money requested in the budget to start looking at ways of upgrading these financial systems and other operating systems.

Some of these IT systems were put in place in the 1980s and 1990s, and you have to refresh them every so often to get them up to standard. And there are a number of requests for those types of systems throughout the budget as well.

Senator BENNETT. Give me an example of a financial system.

Mr. STEELE. Well, we have a central accounting system called the Foundation Financial Information System (FFIS).

Senator BENNETT. Are we talking about Food Stamps, WIC?

Mr. STEELE. I wouldn't say that. It is more of a Department-wide accounting system, that we use through the National Finance Center in New Orleans. This is where our agencies do procurement and other kinds of financial transactions and where accounting records are maintained.

Some of those systems were put in place in the 1990s, and now we have new Government-wide standards that the OMB has put in place to achieve certain accountability in those accounting systems.

Our Chief Financial Officer now is investigating ways of upgrading our financial systems so that they are up to the Government-wide standard.

Now we are making progress, but we need to augment our funding. There is a request in the budget—I think \$14 million or \$15 million—to look into developing a better financial system at the Department.

Senator BENNETT. All right. Senator Dorgan.

Senator DORGAN. Mr. Chairman, thank you very much.

Mr. Secretary, welcome.

Secretary JOHANNES. Thank you.

WEATHER-RELATED DISASTER ASSISTANCE

Senator DORGAN. Mr. Secretary, last November or December, when we finished the emergency supplemental, I was one of the conferees. And I offered to the Senate conferees a \$1.2 billion disaster aid package, which the Senate conferees accepted. The House conferees rejected it, and so we did not accomplish a disaster aid package.

You, in your statement, said that USDA has made available \$2.8 billion to assist those impacted by the hurricanes of which \$1.2 billion will be made available to agricultural producers through various programs and so on. I fully support all of that, and a hurricane is devastating to the agricultural producers of that region.

One community received one-third of its annual rainfall in 24 hours in the northern part of North Dakota last year, and we had a million acres that couldn't be planted. I was up there recently, and the question they asked is why could there not be some sort of disaster program for the weather-related disaster that occurred there? Illinois has its third-driest year last year since 1895.

So the question is, we came close to getting it in the conference. We did not get it because I was told that the House conferees, at the request of the Speaker, rejected it because the administration did not support it.

What is the administration's position—because we will attempt to do this again on the next supplemental, emergency supplemental. What is the administration's position on a disaster package for farmers and ranchers outside of the Gulf Coast who suffered a weather-related disaster?

Secretary JOHANNES. I would offer a couple of thoughts, if I could, on that issue. This first thing we would have to see is what is being proposed in the bill. But historically, as you know, pre-dating me, when disaster bills have come forward, the administration has taken a position of providing offsets.

And as I understand the policy behind that, when the Farm Bill was created in 2002 and debate was occurring on what was going to be the allocation of funding into that Farm Bill, I think there was a look to the history of direct payments made to farmers. And the allocation was based upon not only emergency disaster payments that had been made, but in addition, some other ad hoc supplemental assistance payments.

That is what has led to the issue of offsets. If there is going to be a disaster program, it has to be found within the budget of the Farm Bill.

A couple of other things I would offer. In 2000, there was a very major reform of crop insurance. Interestingly enough, as we conducted our Farm Bill forums, we did hear from farmers that they thought as we went to work on another Farm Bill, there should be some effort put into crop insurance and how that process is working.

And then the other thing I would mention, and again, interestingly enough—and Keith Collins can probably offer some thoughts on this—FCIC has actually paid out more in the Northern Plains for prevented planting than we have paid out for hurricane assistance. So those are some thoughts.

When there is a bill that asks for disaster assistance, of course, we will look at it. But I can tell you historically at least that has been the position of the administration that offsets in the Farm Bill would have to be sought to support disaster assistance payments.

Senator DORGAN. And Mr. Secretary, you would understand producers in one part of the country that suffer a weather-related disaster, lose their entire crop, they would probably look at this and say, well, I don't understand the difference in we provide disaster aid in one part without an offset, but you say in order to provide disaster aid in another part, even to consider whether you would support it, you have to have an offset.

I am sure you understand how producers would look at that and say that really probably isn't fair. But at any rate, we will grapple with that because we don't have a disaster piece in the Farm Bill that we now have. We have got to do that year by year, and the Congress has actually, in most cases, stepped up. Last year, it did not.

FSA STAFFING LEVELS

I would like to ask also about the staffing at the Farm Services Agency. The other thing I keep hearing in North Dakota from farmers and producers is that our county FSA offices we are losing a fourth of the people or 10 percent or 30 percent of the people in certain offices and they are not replaced. And it is interesting. Farmers are the ones that are coming, complaining, saying you need to have adequate staffing in these offices.

What is the recommendation from the USDA on staffing for the Farm Service offices, the FSA offices?

Secretary JOHANNIS. We have a specific recommendation. The 2007 budget provides resources to maintain permanent, non-Federal county staff levels at about 8,775 staff-years, which is about the same as the estimated 2006 level. The temporary, non-Federal county staff-years will remain at the 2006 level of 650 staff-years.

These levels reflect reductions made in early 2006 in response to the tobacco program budget. So there has been some shifting there.

Scott, do you have anything more specific to offer on that?

Mr. STEELE. Well, there have been some changes in staffing in the Farm Service Agency due to changes in temporary employment. Every time you institute a new Farm Bill, you bring in a lot of temporary employees to implement the Farm Bill. And then as the workload tapers off, when you get the systems in place and get the payment structure set up, you find that you may not need as many temporary employees.

We still are maintaining temporary employees but at a reduced level. We are also trying to maintain permanent, full-time staff at a modestly reduced level. There is no dramatic reduction here across the country in FSA staffing, but there could be some local areas where there could be some staffing shortages.

There are a lot of small offices in FSA. I don't know the exact number, but there are a number of offices that have three or fewer people. We have situations where there are some offices where people retire, and they haven't been replaced. There has been some discussion that maybe there should be some consolidation of these small offices.

Now we are working with the Congress dealing with how to go about consolidating offices, and there is report language in last year's appropriations bill as to how USDA should go about determining what the staffing should be and how offices should be handled in these various localities. We are working through these issues now with Committee staff and staff in your offices.

Senator DORGAN. I am going to send you some questions about that.

BEEF EXPORTS TO JAPAN

Mr. Chairman, if I might make one additional comment? A few moments ago, about an hour ago, the administration released the last month's trade deficit numbers. It was the highest in history, \$68.5 billion for the most recent month, which, of course, is a complete disaster for our country. And both the President and the Congress have had their head in the sand on trade for a long while.

On the issue of trade with Japan, because one Canadian cow found in the United States with BSE occurred, Japan has shut off, then started, then shut off again beef shipments to Japan.

Obviously, you are working to try to open that market, and my own feeling is that if Japan doesn't open their market, they should ship all their goods to Kenya and see how quick they get rid of their exports. But I just want to say that when that market is open—let us say it is fully open tomorrow—not many know it, but 15 or 17 years after the beef agreement with Japan, every pound of beef that we do get into Japan will have a 50 percent tariff attached to it.

At the end of the beef agreement, you would have thought both sides won the Olympics back in the late 1980s because they celebrated and thought it was wonderful, what a great agreement this is. Almost 17 years after the agreement, there would remain a 50 percent tariff because they have tariff reductions with a snapback on increased quantity.

It is unbelievable to me that even if you get that back open—and it should be open tomorrow, the beef market in Japan for U.S. beef—even if it is reopened, there will remain a 50 percent tariff on every pound of beef going to Japan. That is a colossal failure.

And I simply wanted to mention one more demonstration that in the area of trade, all kinds of trade, our country lacks backbone and will to say to other countries, we insist on reciprocal treatment and fair treatment. It is not fair 17 years after a beef agreement that they would continue to impose a 50 percent tariff.

Now that is not the most important thing. The most important thing at the moment is prying open that market. I know you are working on that. I know the administration is working on it. I think it is unbelievable the trade deficit we have with Japan. Last year, I believe close to \$70 billion or over \$70 billion.

And because one Canadian cow was found in the State of Washington with BSE, Japan has shut its market to U.S. producers. It is unbelievable to me. So keep working, and you can't be tough enough for my tastes. Whatever you do, the tougher you get, the more I will support it.

Secretary JOHANNES. Thank you. I appreciate that. Thank you.

Senator BENNETT. Senator Bond.

Senator BOND. Thank you very much, Mr. Chairman. And welcome, Mr. Secretary.

Following up on the comments by colleague from the Dakotas, foreign trade is extremely important. And in agriculture, our surplus has been as high as \$30 billion that our exporters can generate from exporting farm goods.

And your budget officer talked about the need for 21st century IT for the central administration of USDA, and that sounds good. But farmers in the Midwest are telling me they need 21st century transportation if they are to get their goods to the world market.

MISSISSIPPI RIVER TRANSPORTATION INFRASTRUCTURE

And on the issue of having a competitive Mississippi River transportation and the Illinois system that serves the 21st century, as our 75-year-old system has served the previous century, I understand from news reports that you have reconfirmed that the administration does not oppose modernizing our aging locks on the Mississippi and Illinois Rivers. Is that correct?

Secretary JOHANNES. Correct.

Senator BOND. Thank you.

Deputy Secretary Conner, I was very much encouraged by the comments you made in response to questions from my colleague Jim Talent in your confirmation hearing when you said Mississippi River commerce is absolutely essential and that we would be absolutely dead in the water without it and that you would be an advocate within the administration in helping that reality become understood.

Does that remain your point of view?

Mr. CONNER. Absolutely, Senator.

Senator BOND. Haven't lost any of your enthusiasm for it?

Mr. CONNER. No. No, those were not statements made as a result of my confirmation. We continue to believe strongly in those, Senator Bond.

I don't think you need to look any further than the impact that Hurricane Katrina had on grain prices in the Midwest during that short period of time when the ports were closed to know just how essential this river transportation is to our farmers in the Midwest.

Senator BOND. I was pleased that I even saw some mention in the national media that there was something coming down the river going through the port of New Orleans called grain. And this may have been the first recognition by the national media that we

do export grain, and that it is very important for our rural economies and as well as our balance of trade.

GRAIN EXPORTS FORECASTING

Dr. Collins, it is good to see you again. I remember very well, I believe it was 2 years ago, you told this subcommittee when asked about the requirement that the Corps come up with a 50-year projection, you said that you could make a 10-year projection that our exports in corn are projected to rise about 45 percent with about 70 percent of that expected to go out through the Gulf. And by extension, that means significantly down the Mississippi and Illinois Rivers.

When I asked you why you didn't try to make a 50-year, 5-0, forecast as some people had charged the Corps of Engineers for doing, I believe you said that doing it for 10 is heroic enough. Is that a fair representation, and would you like to explain that?

Mr. COLLINS. Senator Bond, I would still stand by that last comment. I think that 50-year projections are highly speculative. Our own 10-year projections, which we do every year to support the estimates in the President's budget, are also speculative.

Nevertheless, those projections do show that, over time, we would expect to increase our grain exports, particularly our corn exports. However, the increase is not quite as high in our current set of forecasts, as you just mentioned. Nevertheless, it is still a substantial increase over the next decade.

One of the reasons we lowered it was because of the increase in corn use for ethanol, which might compete a little bit in the export market. But even so, we show a strong increase in corn exports expected over the next decade. And we expect that roughly three quarters of those exports would move down the Mississippi River.

Senator BOND. And they are trying to go beyond that with all of the variables, not only uses, but exchange rates. Perhaps even transportation. That becomes beyond the realm of the realistic?

Mr. COLLINS. It is beyond what we normally try to forecast. Nevertheless, you can look out over the next 20, 30, 40, 50 years, and you can look at the economic growth that is occurring in the world. The increase in incomes in developing countries, higher income developing countries, and we know they are going to change their diets. We know they are going to move more toward meat, and they are going to be demanding feed grains and oil seeds to grow livestock and poultry products.

So we do think there is a good long-term market for grains and oil seeds in the world, and we think that the United States can compete successfully in that market. And I think having efficient infrastructure will help make that possible.

Senator BOND. Thank you, Doctor. That is very important, and I certainly appreciate it.

And I would ask Secretary Johanns' picture of some of the jammed up barges, on maybe even bringing some grain across from Nebraska to try to go into the world market. Do you agree that the system built 75 years ago with a 50-year projected life span that moves 80 million tons of commerce annually and two thirds of our exported grain has proved to be an important and wise investment?

Secretary JOHANNIS. Yes.

Senator BOND. It is interesting that sometimes people are nay-sayers, and I would like to introduce you to a person, unfortunately, a dedicated man, well intentioned, bright, honorable. This is Major Charles L. Hall, the Rock Island engineer from 1927 to 1930.

He advised President Hoover at the time that the proposed system that currently exists, that we have now, was not economically feasible. He argued that limited barge traffic did not indicate that a viable barge industry would develop.

Fortunately, President Hoover and the Congress ignored the advice, and President Hoover said modernization would put the Nation's rivers back as great arteries of commerce after half a century of paralysis.

Now I suspect that Major Hall may have some grandchildren or great-grandchildren working dutifully over at OMB.

Senator BOND. But I ask that you let not just a positive vision of the future, but this history help inform you, the internal discussion on whether we should be trying to predict the future or shape the future, whether we want to compete or surrender.

And I was very much encouraged by Dr. Collins's comments, and I think that shows that if we are willing to build the future, if we are willing to provide the infrastructure, we can and will see it grow. If we say, hey, the 75-year-old system is good enough, it is going to break down, and so are our exports.

And I know that you are reluctant, Mr. Secretary, to comment in public about other agencies' budgets. But I think we all understand that there is absolutely no voice, nobody speaking up for agriculture at DOD, at CEQ, or at the Office of Management and Budget.

At DOD, wonderful folks to work with, but they are afraid that they are going to get beaten down if they try to step out of line. If you and your colleagues, well-informed at the United States Department of Agriculture, don't fight for agriculture, agriculture will be without a voice.

And I join with my colleagues in saying that voice not only needs to be for efficient, effective transportation, it needs to be for new technology, and we need to continue to develop the biotechnology and the other things that are significant.

And we need to continue to fight to make sure that agriculture has a seat and a prominent place in lowering tariff barriers so that we can realize the potential of American agriculture in feeding the hungry of the world and assuring not only solid rural communities, but good incomes for farmers.

Secretary JOHANNES. Thank you.

Senator BOND. Thank you very much. Thank you, Mr. Chairman, Mr. Secretary.

ADDITIONAL COMMITTEE QUESTIONS

Senator BENNETT. Thank you very much, Senator Bond.

With the eye on the clock and the recognition that the full committee is meeting, we will submit additional questions to you, Mr. Secretary, in writing. And as I said in the opening statement, I hope that all Senators have those questions to the subcommittee staff by Friday, March 17.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

USDA SHARE OF BUDGET CUTS

Question. Congressional Quarterly analyzed the administration's budget request by appropriations subcommittee. The analysis shows that overall discretionary funding for this subcommittee, as proposed by the administration, is down 7 percent. Since the budget for the Food and Drug Administration is up 5 percent, we know all of the cuts come from the budget of USDA. No other department has taken such a large decrease.

Why has USDA taken such a disproportionate share of the cuts to the non-defense, non-homeland security, portion of the discretionary budget?

Answer. The President's budget for 2007 continues to support the priorities of the United States Department of Agriculture (USDA). USDA is committed to the President's plans to reduce the deficit which will strengthen the economy and create jobs.

The reduction in USDA discretionary funding is largely the result of the following changes. First, the budget does not propose continuation of the one-time supplemental funding provided in 2006. Second, funding for selected programs, including earmarked research grants and watershed projects, is reduced or eliminated in the budget. Further, certain one-time funding, such as construction projects, is not continued in the budget. These reductions allow us to propose increases in high priority areas, including food and agriculture defense, avian influenza and food safety.

LEGISLATIVE PROPOSALS IN THE BUDGET

Question. Historically, the Congress has not enacted new user fees for the Food Safety and Inspection Service. The 2007 budget request includes a legislative proposal that would generate an additional \$105 million.

If the Congress does not agree to new user fee proposals, how do you propose we make up the difference?

Answer. In 2007, the President's budget includes and requests the full amount of budget authority needed to operate FSIS' inspection services. We are requesting authority to charge user fees, deposit the fees into special receipt accounts, and use the fees subject to appropriations. We fully support the fee proposal as presented in the budget, which will shift the responsibility for funding these programs to those who most directly benefit.

Question. Will you submit a budget amendment?

Answer. No, the President's current budget includes and requests the full amount of budget authority needed to operate FSIS' inspection services.

Question. Have you submitted the text of your legislative proposals?

Answer. The proposal is currently being finalized and will be sent to Congress shortly.

WIC LEGISLATIVE PROPOSAL

Question. In addition, the budget proposes another legislative proposal to limit nutrition services and administration grants in the Women, Infants, and Children (WIC) program, which reduces the program by \$152 million.

If the Congress does not agree to this proposal, how do you propose we make up the difference? Will you submit a budget amendment?

Answer. The WIC Program will continue to serve as many eligible persons as possible with the funding level provided by the Congress, including use of the \$125 million contingency fund as needed. We do not plan to submit a budget amendment.

ANIMAL IDENTIFICATION

Question. Mr. Secretary, the Congress has provided over \$66 million for the implementation of an animal identification system. This level of funding does not include an additional \$18.7 million that was transferred from the Commodity Credit Corporation. With that in mind, the budget request for fiscal year 2007 proposes another \$33 million to continue this animal identification exercise.

Please provide us with an update on the status of animal identification and when you expect a national program to be fully implemented.

Answer. Premises registration has been implemented in all 50 States and 2 Territories. Several Tribes are also registering their premises. The animal identification phase, in which APHIS will begin allocating animal identification numbers, is being

implemented in March 2006. We anticipate the remaining systems elements will be operational in early 2007, but private entities will need to supply information to fill the private databases.

Question. To be more specific, infrastructure items such as ear tags, scanners, and private databases must be available for such a program to operate. Who will fund this infrastructure, the private sector or USDA?

Answer. USDA will continue to provide funding to the States to carry out their responsibilities at the local level. In addition, USDA will continue to support the premises registration and animal identification numbering systems, the data system necessary to support and integrate multiple data systems held by private industry and State sectors, and public outreach and education efforts. The private sector will be assuming costs associated with scanners, private databases, and animal identification devices.

OFFICE OF THE UNDER SECRETARY FOR MARKETING AND REGULATORY PROGRAMS

Question. Mr. Secretary, the Under Secretary position for Marketing and Regulatory programs is currently vacant. This position is one that is very significant based on current issues that the Department of Agriculture continues to monitor. For instance, this office provides oversight and management of Department actions related to avian influenza, pest eradication programs, marketing and grading of commodities, and animal disease surveillance. Please provide us with an update on this Under Secretary position. Also, how long do you expect this position to be vacant?

Answer. I appointed Dr. Charles "Chuck" Lambert as the Acting Under Secretary for Marketing and Regulatory Programs on November 14, 2005. Dr. Lambert served as Deputy Under Secretary for Marketing and Regulatory Programs since December 2, 2002. I anticipate that the President will nominate someone for this position in the very near future.

FARM SERVICE AGENCY (FSA)—COUNTY OFFICE REALIGNMENT

Question. Mr. Secretary, the Farm Service Agency continues to review the current county office structure to determine how to better manage the agency's day-to-day operations. Any action taken by the agency will most likely include a number of office closures and relocation of current employees.

Please provide us with an update of the current review process. Also, please take a moment to explain how altering the current office structure will impact productivity and customer service.

Answer. Consistent with Congressional guidance provided in the 2006 Appropriations Act, I have asked FSA's State Executive Directors (SED) to conduct independent reviews of the efficiency and effectiveness of FSA offices in their States. The SED and State committees will form review committees to identify what the optimum network of FSA facilities, staffing, training, and technology should be in each State within existing budgetary resources and staffing ceilings. Consistent with guidelines set out by Congress, the agency will notify Congressional delegations and conduct public hearings on proposals for closure or consolidation. There are no targets for office consolidations specified at the national level, but as you well know there is an urgent need to optimize the network of offices given the current number of inefficient offices.

We are encouraging the SED to explore joint opportunities with the Natural Resources Conservation Service (NRCS) and other agencies utilizing the State Food and Agriculture Councils. The agencies are being asked to work cooperatively in this effort.

We are committed to a continued dialogue with State and Congressional leaders to discuss how best to modernize the FSA county office system and the necessary steps required to improve its information technology (IT) infrastructure. As you know this budget contains a request for funding to develop a modern, web-based, program delivery IT infrastructure called MIDAS. The ultimate goal of the modernization/office consolidation process is to increase the effectiveness of FSA's local offices by upgrading equipment, investing in technology and providing personnel with critical training. IT modernization along with office consolidation is absolutely essential to ensure that America's farmers and ranchers continue to receive excellent service long into the future.

CLASSICAL CHINESE GARDEN

Question. Mr. Secretary, your budget requests approximately \$8.4 million for the construction of a Classical Chinese Garden at the National Arboretum. I understand this is a joint project between China and the United States. In previous years, the

Congress was unable to fully fund the administration's request in a number of priority research programs such as the National Research Initiative (NRI), food safety, nutrition, obesity, and emerging plant and animal diseases. It is almost certain that we will not be able to fund all of your priorities again this year. What is the Classical Chinese Garden's priority with respect to these other research objectives? Answer. Although the construction of the Classical Chinese Garden is a joint project between China and the United States, it is essentially a gift from China to the United States. The Chinese will provide all the structures, rockeries, plants, furniture and art objects which are valued at over \$50 million. The \$8.4 million requested in the fiscal year 2007 budget is for infrastructure preparation including, excavation of the lakes, and building a story palace for the Garden. The Department has ranked this project as the highest priority facility project for ARS in the fiscal year 2007 budget.

NATIONAL FINANCE CENTER—STATUS

Question. USDA's National Finance Center (NFC), located in New Orleans, operates a centralized payroll, personnel, administrative payment, and central accounting system that serves more than 40 departments, independent agencies, and congressional entities. NFC employs more than 1,400 staff in New Orleans to carry out this mission. Because of the devastation Hurricane Katrina wrought on the New Orleans area, NFC was forced to evacuate and initiate its Continuity of Operations Plan. NFC was not able to return to its New Orleans office for several months.

The Hurricane supplemental that was passed in December provided \$35 million to support temporary space for NFC employees, equipment, and refurbishment of the New Orleans office. The most recent supplemental request seeks an additional \$25 million for continued support of recovery efforts at the National Finance Center.

Can you provide us with an update on the status of the National Finance Center and explain how these funds are being used?

Answer. With the help of the \$35 million appropriated to the Department, the National Finance Center is returning to normal operating conditions utilizing its New Orleans facility. Service levels to client agencies are continuing to improve. The staff remains committed to the continued uninterrupted delivery of services for financial reporting and human resource and payroll clients. The National Finance Center pays approximately 565,000 civilian Federal employees in over 140 Federal agencies, provides human resource services for several USDA, DHS, and other agencies, and host the financial management system for USDA.

The National Finance Center and activities collocated with the Center incurred expenses for redeployment of personnel, for equipment and related technology to resume business operations as quickly as possible, for rental payments and contract costs associated with administering the emergency facility and for housing for personnel, and for emergency overtime for personnel working toward establishing operations. We are continuing to utilize and operate an interim computing facility in Philadelphia with a small on-site staff; all other employees are now operating out of the New Orleans facility.

The additional \$25,000,000 in supplemental funds represents funding to support recovery and continuity of operations efforts during the "deployment" and to continue supporting the operation of the interim computing facility in Philadelphia. Specifically, supplemental funds are to be applied in the following areas:

- Extraordinary Personnel and Related Expenses.*—Covers overtime and employee travel between New Orleans and the various alternate worksites. Additionally, provides continuing coverage of overtime and employee travel for staffing of the interim computing facility.
- Rental Charges.*—Covers the residential rental expenditures incurred for deployed employees.
- Contracts.*—Covers various contracts in support of the operation of the interim computing facility, backup facilities and the alternate worksites. Also includes space rental of the various alternate worksites.
- Temporary Labor.*—Covers the additional costs incurred to temporarily replace expertise lost due to the dislocation and/or loss of employees.
- Other Services.*—Covers essential support costs incurred and future costs needed to replace, refurbish, or rehabilitate facilities at the New Orleans site and the interim/backup computing facilities. This includes hardware leases and software licenses for the interim computing facility, replacement of destroyed furniture, office equipment, telecommunications infrastructure and support, and supplies.
- Temporary Facilities.*—NFC expects to be done with temporary buildings by early summer.

NATIONAL FINANCE CENTER—DATA CENTER OPERATIONS

Question. I understand that under the Continuity of Operations Plan the NFC's data center, meaning the main computer servers and equipment, was moved to a temporary site in Philadelphia. Six months after Hurricane Katrina, NFC's data center is still located in this temporary space.

Can you provide us with an update on USDA's efforts to find a permanent site for NFC's data center?

Answer. On February 8, 2006, the USDA sent out a facility requirements package to Department of Defense organizations and the General Service Administration requesting information on existing Federal facilities that could satisfy NFC's requirements. This package included a copy of NFC's current facility requirements (i.e. floor space, power, pricing, security, etc.). As of March 21, 2006, information on 17 available facilities has been received. NFC is currently evaluating those responses to determine the best alternatives. Once the best alternatives are determined, NFC will conduct visits to those sites to complete the assessment process. NFC is working to complete the assessment and site selection process as quickly as possible. This effort should be completed this spring.

Question. Can the NFC use USDA's National Information Technology Center in Kansas City as a permanent site?

Answer. NFC explored the possible use of USDA's National Information Technology Center (NITC) in Kansas City as a permanent site. However, it was determined that the pressing program needs of the Department at the Kansas City site would have resulted in implementation and operational costs that were incompatible with the current rate structure employed with NFC customers. On February 8, 2006, the USDA sent out a facility requirements package to Department of Defense organizations and the General Service Administration requesting information on other existing Federal facilities that could satisfy NFC's requirements. Once responses are received and assessment and comparison of all acceptable alternatives are completed, a decision of where to locate NFC's permanent site will be made.

515 HOUSING PROGRAM

Question. Mr. Secretary, the fiscal year 2007 budget request eliminates funding for the 515 Rural Rental Housing Program. The 515 housing program provides funding for construction and revitalization of affordable rental housing for rural families who have very low to moderate incomes.

If the Congress does not provide funding for the 515 housing program, will low income citizens have any other option when it comes to affordable housing?

Answer. We stress that the Section 538 program, like the 515 program, provides housing for very low income citizens. The 2007 budget includes almost \$200 million for Section 538 guaranteed loans for rural rental housing—double the amount available for 2006. These guaranteed loans may be used for either new construction or repairs and rehabilitation. In most cases, they are used in conjunction with other sources of financial assistance. These guaranteed loans help increase the supply of rental housing in rural areas.

As for the Section 515 program, the administration proposes to focus on the critical needs of the existing multi-family projects that have been financed under this program, primarily in the 1980's. Almost half a million rural people reside in these projects. A study completed in 2004 demonstrated that most of the projects are still viable for low-income housing; however, a substantial portion of these projects are in need of revitalization. Moreover, there is a risk that some projects will be prepaid and leave the program. This would put the tenants of those projects at risk of substantial rent increases and possible loss of their housing. The 2007 budget includes \$74 million for housing vouchers to assist these tenants. The administration has also submitted a legislative proposal to Congress that authorizes debt restructuring and other incentives to encourage revitalization coupled with a long-term commitment from project sponsors to remain in the program. Further, the 2007 budget reflects the administration's commitment to fully funding the renewal of all expiring rental assistance contracts, which is vital to keeping the projects affordable to low income people.

Also, opportunities need to be provided for low-income people to own their own homes. The 2007 budget supports about \$1.2 billion in direct loans and \$3.5 billion in guaranteed loans for single-family housing—about the same as available for 2006, except for emergency funding for the Gulf Coast hurricanes. This level of funding is expected to provide over 40,000 homeownership opportunities. All of the direct loans and about a third of the guaranteed loans are expected to go to low-income families with incomes below 80 percent of median income.

NATIONAL VETERINARY MEDICAL SERVICES ACT

Question. In fiscal year 2006, Senator Kohl and I provided funding to implement the National Veterinary Medical Services Act (NVMSA), to help get more vets into underserved areas. No funds are requested by USDA to continue this program in fiscal year 2007. A March 2005 Government Accountability Office report about agroterrorism states that : “USDA officials told us they intend to increase the number of veterinarians entering public service by making new efforts to increase veterinary students’ awareness of potential careers in public service.” This appears to be inconsistent.

Why the inconsistency?

Answer. The \$500,000 appropriated in fiscal year 2006 has not been obligated. Therefore, there was no need to request funds in the fiscal year 2007 budget. As no-year funds, they will be obligated when the program is developed and incur costs. CSREES is currently working with other agencies in the Department and informally discussing implementation options with program constituents to determine how best to design and deliver a full loan subsidy program. A critical initial task will be to determine criteria for demonstrating, measuring, and monitoring need for veterinarians across fields of service, geographic locations, and national service needs. Once these criteria and program guidance have been developed and made available for public comment, specific needs for the program can be estimated.

Question. These vets will be extremely important as first responders in the case of an outbreak of a foreign animal disease.

What is USDA doing to make sure that there will be enough vets familiar with foreign animal diseases to help protect U.S. agriculture?

Answer. Veterinary Services, part of the U.S. Department of Agriculture’s Animal and Plant Health Inspection Service (APHIS), administers the National Veterinary Accreditation Program. This voluntary program certifies private veterinary practitioners to work cooperatively with Federal veterinarians and State animal health officials. Accredited veterinarians are instrumental in increasing our capability to perform competent health certifications, maintain extensive disease surveillance and monitoring, and provide valuable veterinary service during national emergencies. Producers that export animals interstate and internationally rely on the expertise of accredited veterinarians to help ensure that exported animals will not introduce diseases into another State or country. The accreditation program has served the animal industry well for many years and remains integral to their future growth. There are currently over 60,000 active accredited veterinarians in the national database.

The President’s budget requests \$2.4 million to enhance the National Veterinary Accreditation Program to develop web-based certification and training modules for veterinarians. This will provide a method for veterinarians to expand their knowledge of, and vigilance for foreign animal diseases.

MANDATORY COMMODITY PROGRAMS

Question. Mr. Secretary, the administration’s fiscal year 2007 budget includes a legislative proposal to reduce farm program spending by approximately \$1 billion in fiscal year 2007. This proposal would include a number of changes to the current farm law that would decrease commodity support.

Please take a moment to describe this legislative proposal and the cost savings that will be achieved should it become law.

Answer. The fiscal year 2007 Budget again proposes some changes in farm programs designed to save about \$1.1 billion in fiscal year 2007 and about \$5 billion over a 5 year period. Key changes proposed include: a 5 percent reduction in all farm program payments; a reduction in the payment limit from \$360,000 to \$250,000 per natural person; a 1.2 percent assessment on all sugar marketed; a three cent per hundredweight assessed on milk marketed; cost minimizing adjustments for the dairy price support program, and some moderate changes in the crop insurance program, including modest reductions in premium subsidies and in administrative expenses paid to crop insurance companies.

FOREST SERVICE FUNDING

Question. Please give us details on any funding provided by this subcommittee that benefits the United States Forest Service. Include agencies and amounts.

Answer. The Forest Service receives a small amount of funding provided by the Agriculture Subcommittee to the Hazardous Materials Management (HMM) account. Funds are used to address environmental contaminations on Federal land. More details are provided for the record.

[The information follows:]

The appropriation language for the HMM account provides for the necessary expenses of the Department of Agriculture to comply with the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and the Resource Conservation and Recovery Act (RCRA). The funds remain available until expended and may be transferred to any agency of the Department for its use in meeting requirements pursuant to CERCLA and RCRA on Federal and non-Federal lands.

Agencies compete for HMM funding by submitting proposals explaining the RCRA or CERCLA work that is needed, the strategic impact of that work, and the public benefits that will be realized. Funding priorities reflect those planned impacts and benefits. The following table shows actual amounts for fiscal year 2005, estimated fiscal year 2006, and requested fiscal year 2007 HMM budgets for USDA agencies:

USDA HMM BUDGETS FOR FISCAL YEARS 2005, 2006, AND 2007

[In thousands of dollars]

Agency	Fiscal year		
	2005 actual	2006 estimate	2007 request
Agricultural Research Service	2,259	3,770	2,027
Food Safety and Inspection Service	17	.....	.....
Forest Service	5,645	4,900	6,593
Departmental Administration ¹	2,580	1,533	1,700
Office of the General Counsel	1,484	1,677	1,700
Total	11,985	11,880	12,020

¹ Actual reflects amounts under DA's Office of Procurement and Property Management, as well as for agencies not in the FFIS system, CCC, FSA, and Rural Development.

The HMM funding the Forest Service receives in this process supplements the \$10–15 million of annual Forest Service funding in support of USDA's Hazardous Materials Management Program. The Forest Service is not required to reimburse the account, except when cleanup costs are recovered from other responsible parties. It is estimated that HMM funding helped to leverage the estimated \$22 million of environmental cleanup work responsible parties performed in lieu of cash payments in fiscal year 2005.

FINANCIAL MANAGEMENT SYSTEM

Question. The budget request includes an increase of \$13.9 million to begin planning for the implementation of a new financial system. I understand that these funds will be used for hardware and software procurement.

What, specifically, does USDA plan to purchase with this funding?

Answer. USDA is pursuing modernization of its core financial management system and associated business practices. It is critical that this modernization be advanced now to ensure a sound financial management system to support the Department's large and diverse portfolio of programs. The new, web-based system will replace outdated technology that is costly to maintain and not fully compliant with current financial management standards. Further, the new system will allow full integration of existing and new eGovernment initiatives and provide efficiency through shared services. Funds requested for 2007 are needed to begin the process of designing and implementing the new system. Specifically, the funds will support a contract to begin acquiring hardware and software. Implementation is expected to continue for approximately 5 years beginning with a 1-year planning and start-up phased during 2007.

Question. What is the status of the planning and implementation effort for the new financial system?

Answer. The new financial management system, called the Financial Management Modernization Initiative (FMMI), is in the early stages of procurement. A Request for Information was released in August, 2005. The information USDA received was used to further refine USDA's plans. A Request for Proposals was issued in late December, 2005 to solicit contractors to provide planning and integration services for the financial management system. USDA prefers to contract with one entity for both the hardware and software. It is expected that a contract will be awarded in the fourth quarter of fiscal year 2006 so that integration planning and implementation can begin and continue during fiscal year 2007.

Question. Does USDA have an estimate for how much it will cost to fully implement the financial system?

Answer. Until USDA receives and evaluates proposals, we will not know the total cost or schedule for implementing FMFI.

Question. How does USDA plan to pay for this system? Will all of the funding come through the CFO account or will each USDA agency be asked to provide funding for the system?

Answer. USDA will determine the funding approach after we receive and evaluate proposals for FMFI. The funding requested for fiscal year 2007 is critical to permit the project to continue to move forward.

PROVINCIAL RECONSTRUCTION TEAM

Question. Please provide detailed information on USDA's past participation in the Provincial Reconstruction Teams, including total funding obligated. Please give specific examples of the results achieved and the number of individuals who served as advisors and their employing agency.

Answer. USDA agricultural advisors on Provincial Reconstruction Teams (PRTs) in Afghanistan provide technical guidance to PRT commanders, local and international non-governmental organizations, and individual farmers and herders. Advisors also provide training and information for local offices and staff of Afghanistan's Ministry of Agriculture, Animal Husbandry and Food, and the Ministry of

Reconstruction and Rural Development. Additional information is provided for the record below.

[The information follows:]

Total funding obligated for these activities, including State Department International Cooperative Administrative Support Services (ICASS) costs, is shown below by fiscal year:

Fiscal year	Amount
2004	\$940,000
2005	2,628,000
2006 (projected) ¹	3,909,000
2007 (projected)	5,012,000

¹Includes \$1 million transferred to USDA from the U.S. Agency for International Development to help defray an unanticipated increase in security and other support costs.

From 2003 through 2006, 39 USDA staff served on PRTs in Afghanistan. Currently, USDA has six advisors in Afghanistan, including an area agronomist for the Natural Resources Conservation Service from Brice, Utah, who serves on the Farah PRT.

USDA agencies and the number of their staff participating over the years are as follows:

- Natural Resources Conservation Service—17
- Food Safety and Inspection Service—6
- Farm Service Agency—4
- Rural Business Cooperative Service—3
- Animal and Plant Health Inspection Service—3
- Cooperative State Research, Education, and Extension Service—2
- Foreign Agricultural Service—2
- Agricultural Marketing Service—1
- Forest Service—1

Below are some specific examples of results achieved:

- USDA advisors guided their Afghan counterparts in organizing the protection of the endangered Koli-Kashman watershed. More than 2,500 trees were planted to stabilize the watershed; other conservation plant materials were incorporated; and erosion control and other protective structures were established. More than 2,570 paid labor days were generated to benefit Afghan participants. Disarmed and demobilized combatants were trained and employed for this activity, as well as unemployed youth, women, the elderly, and disabled. The program is being replicated in 28 other provinces.
- USDA advisors serving on PRTs in the Kandahar area designed, secured funding, and worked with their military counterparts to install 15 windmills to pump water for irrigation and livestock. The advisors established a distribution network and water user associations to operate and maintain the systems. Alternative sources of energy are extremely important in this country which has negligible reserves of fossil fuels.
- A USDA veterinarian designed, secured funding, constructed, and trained Afghans to staff two veterinary clinics in Parwan and Kapisa Provinces. These

clinics provide access to professional animal health care and herd improvement information for Afghanistan's livestock producers. Approximately 85 percent of Afghanistan's families own livestock; therefore, this is a critically important service.

—A USDA advisor serving on the Konduz PRT trained local non-governmental organizations to provide credit programs to farmers and rural businesses. Credit cooperatives were established throughout northeast Afghanistan, and they have remained functional and financially solvent for nearly 3 years. These credit programs have provided the first access to credit in decades for farmers in this region of Afghanistan, and have resulted in increased agricultural production and incomes.

—USDA advisors provided training to faculty at the agricultural colleges in Jalalabad, Herat, Kandahar, and Kabul. Curricula were developed for new courses and new training materials were developed and shared with other agricultural training institutions. Training was provided in veterinary sciences, natural resources management, horticultural production, and farm management. This training provided these faculties with their first exposure in decades to modern course materials and technical information on current agricultural practices.

—The USDA advisor serving on the Kandahar PRT established a province-wide poultry project that provided eggs to more than 400 families, for consumption and sales. This project provided direct benefits to women and children through increased family incomes and improved nutrition.

Question. How will the \$5,000,000 requested in the budget to continue USDA's participation in the PRT be used, (e.g. salaries, training, equipment, logistical support)? How much will go to the Department of State or any other department?

Answer. Approximately \$3,400,000 is for salaries, benefits, and allowances and \$830,000 is for travel, equipment, program costs, and other support. Approximately \$782,000 is budgeted to go to the Department of State for projected ICASS and security costs.

FOREIGN SERVICE PERFORMANCE PAY

Question. The budget requests \$990,000 for foreign service performance pay. Why is this funding needed? How was this figure arrived at? What criteria will be used to award such funding? Why was this requested in the Office of the Secretary?

Answer. The requested funding supports the first step of transition to a performance-based pay system and global rate of pay for Foreign Service personnel grade FS-01 and below. The forthcoming Foreign Service Modernization legislative proposal linked to this funding would amend Section 406 of the Foreign Service Act (22 USC 3966) to eliminate longevity-based pay increases and institute a strictly pay-for-performance system similar to that instituted for the Senior Foreign Service in Public Law 108-447.

The proposal would also establish a global rate of pay for the Foreign Service to attract and retain a labor market for worldwide-available personnel, based on the needs of the Service, consistent with other pay systems with similar worldwide availability requirements. This global rate also addresses the increasing pay disincentive to overseas service, due to the frequent rotation of assignments, influenced by 5 USC 5304.

The Modernization proposal would equalize the Foreign Service global rate at the Washington, DC, rate, including locality pay, over 2 years. The requested funding supports the first step of this transition. Additional funding will be required in fiscal year 2008 and fiscal year 2009 to fully close the gap, in order to begin a new pay-for-performance system effective April 2008, under a uniform global rate pay system. Funds are requested in the Office of the Secretary so that further allocations can be made to the agencies within USDA that have Foreign Service personnel.

CROSS CUTTING TRADE NEGOTIATIONS AND BIOTECHNOLOGY RESOURCES

Question. How has the fiscal year 2006 funding for this been used (please be specific and give examples of the results achieved)? What agencies are involved in the utilization of this funding? What will the proposed increase of \$366,000 achieve?

Answer. Funding in the Office of the Secretary to support cross-cutting trade negotiation and biotechnology issues allows critical coordination of efforts that span several agencies within USDA. In addition to supporting the Senior Advisor to the Secretary, the agencies involved in the biotechnology funding are: the Animal and Plant Health Inspection Service; the Cooperative State Research, Education, and Extension Service; and the Foreign Agricultural Service. Their use of the money is described below.

The proposed increase of \$366,000 would enable the Department to more effectively address:

- Quantitative analyses and studies needed to support increasingly complex compliance activities;
- Expansion of a project to develop a regulatory and trade strategy for specialty crops;
- Increased activity in the area of transgenic animals—domestically, in international markets, and in international standard setting organizations; and
- Increasing need for communication materials for both domestic and international markets.

[The information follows:]

APHIS has used the fiscal year 2006 funding for a number of small to medium size projects that together will strengthen and improve the biotechnology regulatory process:

- Extended an existing agreement with the National Plant Board to continue the collection of information from the States and stakeholders on key aspects of the agency's regulatory system and items that APHIS should consider during State evaluations. These efforts will help APHIS to improve the biotechnology regulatory process.
- Extended our current agreement with the National Association of State Departments of Agriculture (NASDA) to coordinate and conduct the pilot program for State personnel to perform notification inspections. Once the pilot project is complete, a task group consisting of NASDA and APHIS personnel will conduct a full joint review of the program.
- Continued work with Iowa State University to prepare additional chapters for the APHIS–Biotechnology Regulatory Services equipment inspection manual to be used to train third-party inspectors (State and other APHIS employees) on proper techniques and procedures for cleaning and inspecting equipment for contaminated materials.
- Supported the agency's efforts to procure a geographical information system to assist in managing and analyzing program data. Examples include the production of large and small maps of regulated States, counties and sites to improve compliance, risk analysis, and program management functions; the ability to “geo-identify” sites that may have been affected by weather events such as hurricanes or tornados in order to respond appropriately to these events to evaluate the potential spread of regulated genetic materials; and the ability to layer a number of data sets on a single map to provide the APHIS biotechnology regulatory program with an enhanced data analysis capability.

The fiscal year 2006 funding for Cooperative State Research, Education, and Extension Service has been used to begin the development of an

implementation/business plan by a contractor to deal with biotechnology regulatory issues associated with specialty crops. To date, a Scope of Work was prepared, and proposals were received by the Specialty Crops Regulatory Initiative (SCRI) Steering Committee. The Steering Committee is composed of representatives of technology developers, including USDA, 1890 and 1862 land-grant universities, other universities, a spectrum of private sector companies, and commodity groups. It is anticipated that a consultant will be hired in May 2006, through an award to Arkansas State University. A draft business plan is anticipated by the end of the year, to include proposals for the structure and function of the SCRI, and implementation plans including mechanisms to fund the finalization of the operation of the SCRI.

The Foreign Agricultural Service has applied the fiscal year 2006 funds to address global market access issues, capacity building, and technical assistance needs associated with agricultural biotechnology. In collaboration with other Federal agencies, funds have been targeted to sustain and expand a number of ongoing bilateral and multilateral activities aimed at advancing the development of science and rule-based regulatory systems for the products of agricultural biotechnology and adherence to World Trade Organization principles. This in turn has helped foster global market access for U.S. agricultural products that, increasingly, are produced using modern biotechnology.

Specifically, policy and technical engagement with Japan, China, Canada, and Mexico, as well as within the Asia Pacific Economic Cooperation (APEC) and other international fora, has helped maintain open access to these key markets for U.S. agricultural products, including those produced through modern biotechnology. A notable success of the engagement has been the continued market access for U.S. corn exports to Japan after an unapproved biotechnology corn product was found in the United States. Bilateral and multilateral efforts have been undertaken with countries in the Western Hemisphere, as well as China and Japan, which have helped guide implementation of the Cartagena Protocol on Biosafety in a practical

and predictable manner that will maintain access to global markets for U.S. agricultural products. Numerous technical assistance and educational activities have been undertaken aimed at promoting adoption and acceptance of biotechnology. These have included outreach to farmers in Africa and efforts to promote farmer adoption of plum pox resistant plum production in Europe. Targeted technical assistance and policy dialogues on biotechnology have also been undertaken with numerous countries with which the United States is engaged in FTA negotiations.

OFFICE OF CIVIL RIGHTS

Question. Please generally describe the Civil Rights Enterprise System and provide the following information: How much funding has been provided for this system through fiscal year 2006? What is the total anticipated cost of the system? How has this system helped improve the processing and resolution of discrimination complaints?

Answer. The Civil Rights Enterprise System (CRES) is a web-based USDA enterprise-wide complaint tracking system used for tracking, processing and reporting employment and program complaints. The system is being implemented in two phases: Phase 1—Employment Complaints Tracking System in fiscal year 2004 and 2005, and Phase 2—Program Complaints Tracking System in fiscal year 2006 and fiscal year 2007.

The CRES project is on schedule and within budget. Phase 1, the Employment Complaints Tracking System component, has been fully implemented and is currently operational. The employment complaint legacy systems have been shut down. Phase 2, the Program Complaints Tracking System is under development with testing scheduled for the summer.

One of USDA's most significant achievements is the implementation of a web-based, Department-wide discrimination complaint tracking system in fiscal year 2004 to track, process and report on employment and program complaint activity.

The Civil Rights Enterprise System is being implemented in two phases:

- Phase 1—Employment complaint tracking system was implemented on time and within budget during fiscal year 2005.
- Phase 2—Program complaint tracking system will be implemented in fiscal years 2006 and 2007.

Additional information is provided for the record.

[The information follows:]

CRES planned budgeted cost is as follows:

Fiscal year 2003	System Planning	\$0.1 million, completed
Fiscal year 2004	System Acquisition & Implementation Costs	1.6 million, completed
Fiscal year 2005	System Acquisition & Implementation Costs	1.5 million, completed
Fiscal year 2006	System Acquisition & Implementation Costs	1.8 million, planned
Fiscal year 2007	System Acquisition & Implementation Costs	1.987 million, planned
TOTAL .....	.....	6.987 million, planned

The Civil Rights Enterprise System has improved efficiency through:

- Standardization and elimination of duplicative systems.
- Real time access to EEO complaint data.
- Support of a paperless environment.
- Ability to track, process and report informal and formal employment complaint activity.
- Implementation of accurate performance based reports.

In fiscal year 2006, USDA is enhancing the Civil Rights Enterprise System, including “eFiling” and an online docketing system that will allow complainants and agency representatives to access real time complaint status information. These initiatives are currently in the development and testing phase.

This includes the ability to respond to mandatory reporting requirements, including:

- Annual Federal Equal Employment Opportunity Statistical Report of Discrimination Complaints (EEOC Form 462).
- Notification and Federal Employee Antidiscrimination and Retaliation Act of 2002 (the No FEAR Act).
- EEOC Management Directive 715.

Question. What are the specific activities and their associated funding in the fiscal year 2007 budget that are targeted to the prevention of equal employment opportunity and program complaints?

Answer. As Secretary of Agriculture, I am firmly committed to ensuring the civil rights of all USDA's customers and employees. The Office of the Assistant Secretary for Civil Rights was reorganized in July 2005 to facilitate the fair and equitable treatment of USDA customers and employees while ensuring the delivery and enforcement of civil rights programs and activities. This includes processing complaints in a time and cost effective manner and implementing initiatives to prevent EEO and program complaints. Additional information on prevention activities is provided for the record.

[The information follows:]

OFFICE OF CIVIL RIGHTS PROGRAM FUNDING

Conflict Prevention Resolution

The Conflict Prevention and Resolution Center (CPRC) was established to lead and coordinate conflict management and ADR efforts throughout USDA. ADR programs exist in all USDA agencies and mission areas, and vary in both scope and level of activity. ADR itself is applicable, in a variety of forms, to workplace disputes, EEO complaints, USDA program disputes, including civil rights complaints, and group interventions. Reorganization and subsequent inclusion of CPRC in Civil Rights maintains the USDA-wide focus on conflict resolution, with additional emphasis in support of the Assistant Secretary for Civil Rights.

Outreach

The USDA Office of Outreach strengthens USDA outreach efforts to limited-resource farmers and ranchers and under-represented customers, coordinates program delivery outreach throughout USDA, and assists underserved customer groups in collaboration with the Agency Outreach Coordinators and State Outreach Councils. Outreach develops policy, thereby enhancing the building of partnerships with universities/colleges, community/faith-based organizations and other groups, associations and organizations. Outreach provides leadership through policy guidance, high-level strategic planning and goal setting, performance measurement and feedback to USDA national, State and local outreach coordinators and councils. Outreach monitors, analyzes, and evaluates trends related to USDA programs and activities through mission area outreach plans, outreach coordinators, and State outreach councils. Outreach develops and provides training and education in outreach function models, best practices, policies, environmental justice, strategic plans and goals to USDA employees and stakeholders to provide an effective educational resource and linkage to internal and external customers regarding USDA-wide programs.

Program	Fiscal year 2005 funding actual	Fiscal year 2005 FTEs	Fiscal year 2006 funding estimate	Fiscal year 2006 FTEs	Fiscal year 2007 funding estimate	Fiscal year 2007 FTEs
Outreach	\$1,338,387	8	\$981,000	8	\$1,001,000	8
Conflict Prevention & Resolution Center	706,700	6	736,000	6	751,000	6
Totals	2,045,087	14	1,717,000	14	1,752,000	14

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

DAIRY ASSISTANCE

Question. Agriculture is the largest industry in Pennsylvania, producing over \$45 billion annually and providing approximately 1 in 6 jobs in agriculture and related businesses. Of this industry, dairy is the number one sector in the State and ranks number 4 in overall milk production in the entire Nation. Milk prices for dairy farmers have been on a down trend since January and economists project that the price of milk will continue to fall. The proposed 3 cent per cwt. assessment in the fiscal year 2007 Budget on all milk production will only compound the severity of this situation. Although the Milk Income Loss Contract (MILC) program, that I worked very hard on to be extended to October 2007, will provide the safety-net needed for our dairy farmers, the falling prices of milk and the continued high costs of fuel will make it more difficult for dairy farmers across America to survive.

What does the Department plan on doing to help our Nation's dairy farmers when they need you the most?

Answer. We share your concern about the rising cost-price pressures faced by dairy farmers and for that matter most farmers. In addition to the credit and other

programs the Department has available to help producers when financial stress rises, our dairy programs are by design geared to provide support when prices decline. The dairy price support program puts a floor under milk prices to provide some protection in that way. And as you mentioned, the Milk Income Loss Contract (MILC) program will provide some counter-cycle protection by providing payments to eligible dairy producers when prices decline. As you will recall the President had proposed that this program be extended through the end of the 2002 Farm Bill and Congress did enact that extension in the recent Deficit Reduction Act. The Department is now implementing the newly extended program.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Question. The Commodity Supplemental Food Program (CSFP) provides 6.4 million food packages to over 400,000 mothers, infants, children, and primarily low-income seniors—in fiscal year 2005, 15,575 households in PA received CSFP packages. CSFP food packages are delivered monthly, and provide \$50 worth of food including cheese, milk, and canned fruits and vegetables. The President eliminated this program in his fiscal year 2007 budget, stating Food Stamps and the WIC program could meet the needs of CSFP recipients. However, seniors, who represent 90 percent of CSFP recipients, are not eligible for the WIC program, and many of these seniors are also not eligible for food stamps, or are eligible to receive only \$10 per month in food stamp benefits. An additional benefit of the CSFP program to seniors with disabilities is that they do not have to leave their home to receive the CSFP food package.

How does the Department plan to meet the needs of many of these seniors who depend on the CSFP program and who will not be eligible to receive any benefits, or will receive reduced benefits, from the Food Stamp program?

Answer. Elderly participants who are leaving the CSFP upon the termination of its funding and who are not already receiving Food Stamp Program (FSP) benefits will be eligible to receive a transitional benefit worth \$20 per month ending in the first month following enrollment in the FSP under normal program rules, or 6 months, whichever occurs first. We estimate that most elderly CSFP participants will be eligible to participate in the regular Food Stamp Program.

Based on the information we have about the characteristics of all elderly food stamp participants, the average monthly food stamp benefit for an elderly person living alone was \$65 per month in 2004. The percentage of food stamp households with elderly that received the maximum benefit (14 percent) was nearly as large as the percentage that received the minimum benefit of \$10 (17 percent). Thus, most elderly food stamp participants receive more than the \$10. We expect that this pattern would extend to new FSP participants leaving the CSFP as well.

LIVESTOCK PROTECTION PROGRAM

Question. The Livestock Protection Program (LPP), implemented by the Pennsylvania Department of Agriculture, in conjunction with the U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) Wildlife Service (WS), the Pennsylvania Game Commission, and the Pennsylvania State University is a crucial pilot program that provides technical and operational assistance to help Pennsylvanian agriculture producers control wildlife damage to their crops and property. Started in 2005, this program is fully implemented in eight counties, while on a limited basis across the rest of the Commonwealth of Pennsylvania. The goal of the LPP is to expand fully to other counties in order to protect dairy farmers from feed loss due to starlings, protect sheep farmers from coyotes, and protect property from geese damage. On an annual basis, dairy farmers lose about \$2,000 from feed loss due to starlings. I, along with U.S. Senators Bennett and Santorum, and U.S. Representatives Sherwood, Holden, Shuster, English, Platts, Kanjorski, Murphy, and Murtha sent you a letter on January 24th requesting that you direct any additional fiscal year 2006 Agricultural Appropriations funding for APHIS Wildlife Services to the LPP in order to keep this important program in existence.

What is the status of this request? Does the Department plan on redirecting extra funds to the Livestock Protection Program?

Answer. The Department recognizes the vital role of agriculture and the LPP to Pennsylvania's economy. APHIS allocated \$70,000 in fiscal year 2006 to support this program.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

NATIONAL AGRO-FORESTRY CENTER

Question. When USDA National Agro-forestry Center, a partnership between the Forest Service and NRCS, in Lincoln, NE, was affected by the NRCS re-organization, the USDA provided assurances that the center would be supported by NRCS at a funding level of \$655,000.

What was the actual NRCS funding for the above mentioned partnership in Lincoln, NE in 2006? How much is the NRCS funding for the above mentioned partnership in Lincoln, NE for 2007?

Answer. NRCS continues a close collaboration with the National Agroforestry Center. A NRCS Lead Agroforester position was reestablished and filled at the beginning of fiscal year 2006 and additional direct support totals \$140,000. This position serves as a liaison with the Center. Further support is provided from the three foresters at NRCS new National Technology Support Centers. Salaries and support total an estimated \$360,000. The total support cost in fiscal year 2006 is \$500,000. Specifics for the fiscal year 2007 Budget have not been developed.

NATIONAL INSTITUTE FOR FOOD AND AGRICULTURE

Question. The President announced a major initiative as part of the State of the Union address to enhance America's competitive standing in the global marketplace. The American Competitiveness Initiative proposes to significantly boost the Federal Government's investment in basic research for the physical sciences acknowledging the vital importance of basic research to future discovery and eventual economic growth.

How much basic research does USDA perform? Over the last two decades has that amount grown? Would the establishment of a National Institute for Food and Agriculture—similar to other National scientific institutes like the NIH or NSF enhance the future competitiveness of our farm and food sectors? If so, will you endorse its creation?

Answer. While the distinction between basic and applied research is not clear cut, it is estimated that slightly less than half of the USDA research budget supports basic research.

The National Institute for Food and Agriculture is one of several initiatives that have been proposed to strengthen the Nation's agricultural research system, with the ultimate goal of strengthening the competitive position of the U.S. farm and food sector. NIFA, among other proposals, has generated useful discussion among the diverse stakeholders of the food and agriculture research community that enrich future consideration of options for strengthening the research component of the farm and food sector.

Question. The National Institutes of Health spends nearly \$15 on research for every dollar spent by the USDA. In competitive, merit based, peer-reviewed grants—long considered the best way to achieve advances in fundamental science—the NIH outspends the USDA by more than 100 to 1.

What is the cause for this funding imbalance? Do you believe the competitive interests of our farmers are being met with such a funding disparity?

Answer. The administration continues to show strong support for the National Research Initiative (NRI), the competitive, merit-based, peer-reviewed grant program within USDA. Funding for the NRI has increased in recent years, and the administration has requested an increase of \$66.3 million in fiscal year 2007. The NRI is a critical component of a balanced research portfolio of intramural and extramural research that is effectively serving the competitive interests of farmers.

Question. In USDA's budget proposal for fiscal year 2007, your administration lists six strategic goals that describe the Department's major objectives which include enhancing international competitiveness, enhancing the competitiveness and sustainability of rural economies, enhancing food safety, improving the Nation's nutrition and health, protecting our natural environment, establishing energy independence and improving the quality of life in Rural America. Similar objectives were listed by the 2002 USDA Research, Education and Economics Task Force which called for the creation of a National Institute for Food and Agriculture to achieve these goals.

Has the Department taken any steps to meet the objectives outlined in this task force report? My thought would be that if NIFA were in place for the last 15 years we probably would be producing at least 20 percent of our energy needs from cellulose sources and other renewable fuels. Would you agree with that?

Answer. The Department's fiscal year 2007 strategic goals are similar to those identified by the 2002 USDA task force report. This suggests that the Department's

research agencies and programs are focused on achieving the same goals and objectives as those outlined in the task force report.

Question. Mr. Secretary, since this administration financially supports joint research with major overseas competitors like India to improve farming technology as part of an Agricultural Knowledge Initiative, will this administration support an agricultural knowledge initiative here at home known as the National Institute for Food and Agriculture? It seems to me, Mr. Secretary that we ought to reinvest in our research infrastructure here at home before going overseas. I think my farmers would support a major U.S. Agricultural Initiative before they would support a U.S.-India Agriculture Initiative. Let's fix our own research problems before fixing those of our competitors.

Answer. The Department has a strong agricultural research program that is generating new knowledge and technology that will enhance American farmers' ability to be competitive in global markets. In particular, the administration continues to support the National Research Initiative, USDA's flagship competitive research program. In the fiscal year 2007 Budget the President once again recommends increasing the investment in the NRI to help address the critical issues facing our Nation's farmers.

EPA REGULATIONS

Question. Specific provisions of concern to Ag retailers and distributors regards the proposed EPA rules relating to secondary containment requirements covered under "Scope and Applicability"—Section 165.141 (This defines facilities covered by these sections of the rule) through "Administrative Standards"—Section 165.157.

Included in these sections are new Federal requirements that relate to bulk pesticide containment only. For example, "General Requirements for Containment Structures"—Sec. 165.146(a)(1)(2) and "Specific Requirements for Liquid Bulk Containment Structures"—Section 165.148(a) discuss types of containment structure Ag retailers would need to comply with.

Will the above mentioned specific provisions be applied in a fair and even manner for the entire Ag sector? If not, then will these provisions be dropped from any final EPA rule and continue to allow the States to regulate this area as they have been doing for the past several decades without EPA oversight?

Answer. EPA administers pesticide regulations under the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA), and is responsible for their implementation and interpretation. USDA and EPA actively work together to ensure unnecessary regulatory burdens are not imposed on the agricultural sector. We will work with EPA to encourage them to adopt provisions in the rulemaking that can be applied in a fair and even manner for the entire Ag sector.

QUESTIONS SUBMITTED BY SENATOR CONRAD BURNS

RESUMING BEEF EXPORTS TO JAPAN

Question. Mr. Secretary, many of my producers in Montana are frustrated that you don't appear to be taking a more firm stance with Japan regarding beef exports. Can you tell me what USDA is doing to get the borders back open?

Answer. On January 20, when we announced that a U.S. exporter sent a shipment of veal to Japan that did not comply with the terms of the Export Verification Program, we made very clear that we take this matter very seriously. We immediately set about to implement follow-up actions that would prevent such an incident from occurring again and would help get exports to Japan resumed as soon as possible. To help in this effort, we made clear in a series of meetings with senior Japanese officials that this is a top priority and that our investigation of the incident would be thorough.

On February 17, the results of the Department's investigation into the ineligible shipment of veal were announced. In conjunction with that announcement, a comprehensive USDA report was released that details the findings of the investigation and actions taken by USDA. At that time, it was announced that additional actions beyond those announced January 20 would be taken in response to findings in the report. These actions go beyond the circumstances of the incident to incorporate further efficiencies and protections into the U.S. export system.

This information was submitted to Japanese authorities for their review. The document contained two distinct reports: an investigation by the Food Safety and Inspection Service and an audit by the Office of the Inspector General. Japanese authorities reviewed the two reports and transmitted questions to USDA about the report. USDA has responded to all of Japan's official questions and delivered them

to the Ministry of Agriculture. In addition, a technical team will be traveling to Japan in late March for meetings to provide any necessary clarifications as well as respond to any remaining questions. Department of Agriculture officials, as well as those from other Executive Branch agencies, have pressed upon Japan the importance of resolving this matter and the need to provide a timeline for reestablishing trade. We have stated on a number of occasions that time is of the essence and that we need to have assurances that this process will not be drawn out. We have also made clear that Japan may be inviting a complication in our bilateral trade relationship if this matter is not resolved quickly.

PESTICIDES

Question. Mr. Secretary, you and I have often talked about the need for USDA to serve as an advocate for agriculture at EPA. I am concerned that rules relating to Superfund and pesticide containment are treating agriculture unfairly, and I believe that you need to step up on behalf of America's farmers and ranchers.

Can you share with the Committee your thoughts on the relationship between EPA and USDA?

Answer. The Department normally reviews proposed rules that EPA promulgates to evaluate their impact on USDA activities, and on production agriculture. We work cooperatively with EPA, and often provide comments, both informally and formally, in order to attain key environmental objectives without unduly penalizing farmers and ranchers.

Representatives of USDA regularly meet with EPA personnel in a series of bi-monthly meetings to share progress on conservation programs, and look for opportunities to assist producers in proactively meeting regulatory constraints. These meetings also inform EPA staff so that they can tailor regulatory programs to achieve protection of the environment while allowing producers to have flexibility in achieving the desired results.

For example, USDA has been working with EPA during their efforts to promulgate regulations on the containment of pesticides at storage facilities to achieve a final regulation that will not be unfairly burdensome to agricultural producers. The draft final rule would establish standards for removal of pesticides from containers and for rinsing containers; facilitate the safe use, refill, reuse, and disposal of pesticide containers by establishing standards for container design, labeling and refilling; and establish requirements for containment of large, stationary pesticide containers and for containment of pesticide dispensing areas. These regulations do not directly impact farm containers. Since this effort is not yet finalized, I am not at liberty to discuss any further details of the pending regulatory language, but we continue to evaluate proposed changes and will provide EPA with comments on their draft final rule.

RENEWABLE FUELS

Question. Renewable fuel development holds tremendous potential for rural States like Montana, particularly the development of cellulose ethanol and biodiesel. I understand this is a top priority for USDA.

Can you update the Committee on USDA's activities in implementing the Energy title of the Farm Bill and in making producers aware of the resources that USDA has available?

Answer. Renewable fuel and bioenergy development remains a top priority for USDA. The Energy Title of the Farm Security and Rural Investment Act of 2002 (Farm Bill) authorized various renewable fuels programs. Section 9010 of the Farm Bill continued support for the bioenergy program to support increased production of bioenergy. Since fiscal year 2002, USDA has awarded over \$450 million in payments to bioenergy producers through this program. Section 9004 established the Biodiesel Fuel Education Program through which USDA awards grants to educate governmental and private entities and the public about the benefits of biodiesel. USDA also continues to team with the Department of Energy on the Biomass Research and Development Initiative with authorized funding from section 9008. This initiative supports the development of new bioenergy technologies and biobased products.

USDA conducts outreach to producers in many ways. Service Center Agencies provide information at their individual locations. USDA participates in many conferences each year that are designed to reach producers and potential producers.

BEGINNING FARMERS AND RANCHERS

Question. I believe one of the most important things we can be debating, especially in light of Farm Bill reauthorization, is role the Federal Government can play in encouraging young farmers and ranchers to get into production agriculture.

Is USDA considering incentives and/or elimination of barriers for young farmers and ranchers, and how will that play into Farm Bill proposals?

Answer. I recently completed a series of Farm Bill listening sessions around the country. A recurring theme at these sessions was the need to help young farmers and ranchers to get into production agriculture. A number of comments and suggestions were received which warrant consideration during the upcoming Farm Bill debate. Further, the USDA Beginning Farmer and Rancher Advisory Committee will be meeting later this year. In the past, this committee has provided valuable guidance in framing Farm Bill debate pertaining to assistance to beginning farmers and ranchers.

NATIONAL ANIMAL IDENTIFICATION SYSTEM

Question. Producers in Montana continue to be concerned about the development of a national animal ID system. I hear concerns relating to cost, confidentiality, and liability.

Can you please share what is being done to address these concerns?

Answer. The size and scope of the National Animal Identification System (NAIS) demand that it be a cooperative program, with industry and government sharing the cost of the necessary elements. By the end of fiscal year 2006, USDA will have invested \$84.8 million into developing NAIS in terms of premises registration, information technology development, education and outreach, and staffing. The animal identification component is USDA's next implementation priority, along with the information-technology architecture to support multiple tracking databases. The animal tracking databases themselves will be developed and maintained by industry and States, and the cost of capturing animal movement data will be their responsibility.

USDA recognizes that some producers have concerns about misuse of the data that will be collected and how the information will be maintained. We are working with industry to establish an information technology solution for animal movement data to be maintained in animal tracking databases managed by the industry and States. As proposed, USDA will only be able to access the information through a querying mechanism initiated when a disease of concern has been reported. As industry develops data collection systems and this process moves forward, USDA will continue to keep producers informed. The NAIS will not expose producers to any unwarranted or additional liability.

QUESTIONS SUBMITTED BY SENATOR SAM BROWNBACK

NEW USES EXPO FOR BIOBASED PRODUCTS

Question. I recently sent a letter to you concerning the biobased products component of the Department of Agriculture's Research, Education and Economics "Strategic Vision of 2005–2008". I offered Kansas City as a site for the USDA to host a New Uses Expo to highlight new, non-food, non-feed uses for agricultural products. Your office was kind to reply to my letter by saying that the USDA "hopes to sponsor, as resources allow, a National Biobased Products Conference to highlight new biobased products" in 2007.

Mr. Secretary, what resources does your department need in order to make this New Uses Expo happen?

Answer. At this time, the Department has not committed to holding a Biobased Products Conference in 2007. If we decide to hold a conference, we will coordinate with other Federal agencies.

HORSE SLAUGHTER

Question. Last year the Senate passed an amendment that sought to de-fund USDA inspections of horse packing plants. I believe this policy to be extremely short-sighted. Now horse packing plants are required to pay "user fees" for inspectors to certify the quality of the meat. This is essentially an extra tax on packing plants that will lead to a loss of jobs here in America. Plus, if we outlaw the slaughter of horses, I believe this will lead to less humane treatment of unwanted horses. Experts estimate 70–80,000 horses each year are disposed of because they are no longer viable, are old, infirm, unmanageable or unwanted. These same experts esti-

mate this number will approach 100,000 unwanted animals a year very shortly and could double within a few years. While most horses are sold, an unknown number are abandoned. When sold, approximately 55,000 animals will move to USDA-regulated and inspected processing plants, transported under USDA regulations, promulgated under the Commercial Transport of Equine for Slaughter provisions of the 1996 Farm Bill. Once they reach the processing plant, these animals are euthanized humanely under the Federal Humane Slaughter Act, and the meat is inspected and certified by USDA's Food Safety & Inspection Service (FSIS). While some meat is sold in the United States to satisfy cultural markets, the majority is exported. Some argue these unwanted animals can be easily moved to existing "adoption" facilities. The capacities of such facilities range from 5 horses to, in rare instances, a maximum of 1,000 horses. The average capacity of one of these facilities, however, is 30 animals. In the first year of a Federal ban on horse processing, nearly 2,700 additional facilities would be needed, according to the American Association of Equine Practitioners (AAEP), the professional organization of equine veterinarians. This is PETA's first salvo in the war against meat. What's next, the outlawing of slaughtering cattle? I intend to undo this mistake we made last year.

What is the administration's position on the "Horse Slaughter" amendment that passed last year?

Answer. USDA has abided by the prohibition of federally-funded USDA inspections of horses presented for slaughter at official establishments. The fiscal year 2006 Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act included a section prohibiting the use of appropriated funds to pay the salaries or expenses of personnel to inspect horses (ante-mortem inspection) after March 10. Conference report language for the act recognized FSIS' obligation under existing statutes to "provide for the inspection of meat intended for human consumption (domestic and exported)."

While the appropriations bill prohibited appropriated funds from being used to pay for ante-mortem inspection, it does not eliminate FSIS' responsibility under the FMIA to carry out post-mortem inspection of carcasses and meat at official establishments that slaughter horses. In response to a petition, FSIS established a fee-for-service program under which establishments can apply and pay for ante-mortem inspection of horses. The interim final rule became effective March 10, 2006.

LAND GRANT UNIVERSITY FUNDING

Question. As a Senator from a State with a first class land-grant university and a graduate of that same university, I am very proud of the legacy the land grant university system has in our country. As you know the land grant university system makes up the infrastructure which is the basis of our country's agriculture research, teaching, and extension programs. These are programs that support our farmers, ranchers, youth, families, and rural residents. Without the base funds that our Land Grants schools receive for Hatch Act, McIntire-Stennis Cooperative Forestry, and the Animal Health programs many schools would be in dire straits to continue to offer programs that support our constituents. The President's budget proposes to cut 55 percent of Hatch Act funds, 50 percent of the McIntire-Stennis funds, that our Land Grant Universities currently get and make them available only to multi-state projects and eliminate the Animal Health funding. Some Universities would very likely have to terminate many of their Agriculture programs. Some may have to go as far as not offering agriculture as part of a curriculum. A University like Kansas State might suffer a loss of \$1.6 million. Kansas State is an institution that would compete very well for those funds if in a multi-state pool. However, there would be major disruption in current programs while we had to go through the motions of competing. They would have to lay off faculty, stop on-going research projects, and undertake other disruptive measures. And then there would be no guarantee that my institution would get back to even. Without these funds the Land Grants system would be in disarray.

In making this proposal, did you consider the financial and programmatic impacts there would be on each Land Grant institution and the other stakeholders who depend on these programs?

If "YES"—can you please provide the Committee with a copy of your analysis of these impacts?

If "No"—How can you expect us to embrace such a major change in program administration without a detailed analysis of how these changes will affect the Land Grant institutions in our State?

Answer. Yes, we did consider the impact on eligible institutions. The analysis is provided for the record.

[The information follows:]

REVIEW OF STAKEHOLDER RESPONSE TO THE FISCAL YEAR 2006 BUDGET AS BACKGROUND FOR COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE (CSREES) FISCAL YEAR 2007 BUDGET PROPOSAL

Key Elements of the President's Fiscal Year 2006 Budget for CSREES

The fiscal year 2006 budget expanded the NRI to \$250 million; established a new, SAES Competitive Grants Program at \$75 million; cut the Hatch and McIntire-Stennis research formulas by 50 percent in 2006, and 100 percent in 2007; cut the Animal Health (Section 1433) research formula by 100 percent, starting in 2006; and moved six competitive grants programs currently funded under Section 406, Integrated Competitive Grants programs, to the integrated programs area of the NRI initially provided through Congressional appropriations actions beginning in 2004. The proposal also called for full indirect cost recovery on all competitively award grants, up from the current level of 20 percent of direct costs, and an increase in integrated grants authority from 20 to 30 percent.

Congressional Response

In questions to the Agency during the hearing, and more intensively in post hearing, written questions, the House sought accomplishment information for formula based programs and asked the agency about stakeholder input and the administration's analyses leading to the recommendations to redirect formula funded research programs to competitive grants.

The Senate committee is very unlikely to adopt the administration's proposal to redirect formula funds to competitive programs, and may be reticent to consolidate the 406 programs with the NRI, particularly if this action limits the integrated programs in the NRI which began in 2004.

University Response

Agricultural Research and Extension Administrators, Land-Grant Universities (LGUs): The collective response of these administrators has been extraordinarily negative to the formula-competitive conversion. Initial analysis of the university director's response to the initial proposals in the President's fiscal year 2006 budget indicate that the primary concerns are: (1) lack of consultation with affected universities and stakeholders; (2) loss of matching funds; (3) program continuity and length of awards; (4) sustaining breadth of capacity in agricultural science and education nationwide; (5) providing responsiveness to State and local issues; and (6) leveraging and sustaining partnerships across institutions.

—Directors particularly have cited consequences for employment (estimating as many as 2000 scientists and equal numbers of technicians and graduate students will lose their jobs; see CRIS tables on employment by Hatch projects for actual numbers.); concerns about program infrastructure; loss of matching funds; and continuity of efforts. In addition, agricultural research directors have expressed concern about a net decline in total research effort, if funds are diverted from direct scientific effort to covering indirect administrative expenses. They also are concerned by the speed with which these changes would be implemented especially given that they argue there was no consultation on the proposal. In 2005, LGU agriculture deans and directors have declined the offer of CSREES to participate in a joint planning team to examine alternate strategies to implement fiscal year 2006 proposed, competitive research programs.

—Central Administrators at LGUs: Chancellors, Presidents and Vice President's for Research, particularly, though not exclusively, those at larger institutions, have expressed support for the proposals in the administration's fiscal year 2006 budget proposal. Their support appears predicated not only on the need for agricultural research grants to carry indirect cost recovery to the degree consistent with other Federal grants, but also to help bring agricultural science into the broader fold—and stature—of peer reviewed research on campus.

Scientific Societies

Individual organizations and consortia of scientific societies have supported growth in competitive research programs, and have been either fully supportive of the fiscal year 2006 administration budget, or supportive of the growth the NRI and other competitive programs while silent on the formula-related provisions. For example, the American Phytopathology Society has focused its lobbying efforts on seeking to expand competitive grants, as included in the fiscal year 2006 proposal. Co-Farm, the Coalition for Funding Agricultural Research Missions, is seeking overall growth in funding for agricultural science, thus emphasizes programs with higher numbers than previous appropriations. Episodic reports from individual scientists have varied from concern about loss of start-up funds and preliminary studies needed to test approaches prior to developing proposals for grant funding provided by

some institutions through formula programs to supporting increases in available funds for competitive grants especially to increase the average size and duration of awards.

Public Citizens and Associations of Producers, Processors, Consumers and other Interests

Few citizens or public stakeholder groups have expressed views to the Agency regarding funding mechanisms employed by CSREES. CARET, the Council for Agricultural Research, Extension and Teaching, collectively has called for the restoration of formula funds, although individual members have expressed an interest in developing alternative funding approaches. Major commodity groups have not expressed views on this issue.

HATCH ACT

Recipients of Hatch Act funds have the flexibility to distribute funds among research projects, infrastructure, and personnel as they wish to meet the needs of their university. The distribution of these dollars varies from State to State. The latest data on personnel supported with Hatch funds as reported into the Current Research Information System (CRIS) by recipients of Hatch Act Funds is for fiscal year 2004. The recipient institutions do not assemble the data until the close of the fiscal year and then the reporting process requires approximately 6 months. The fiscal year 2005 data is being collected now but not all institutions have made their reports available yet. Therefore, we do not have complete data for fiscal year 2005 at this point. The recipient institutions do not report estimates to CSREES so estimates for fiscal year 2006 and 2007 are not available.

The information is submitted for the record.

SUMMARY OF PERSONNEL SUPPORTED WITH HATCH ACT FUNDS IN FISCAL YEAR 2004

University/Recipient	Hatch Funds	Scientist Support	Professional Support	Technical Support	Clerical Support	Total Support
Alabama - Auburn University	3,768,657	15.4	8.6	12.3	3.0	39.2
Alaska - University of Alaska	939,214	4.8	1.1	2.6	1.2	9.7
Arkansas - University of Arkansas	3,231,967	8.6	21.4	5.6	5.3	40.8
Arizona - University of Arizona	1,827,902	4.2	8.7	3.5	1.7	18.1
California - University of California	4,885,893	8.8	26.7	3.9	8.6	47.9
Colorado - University of Colorado	2,457,245	3.5	19.9	2.9	4.4	30.7
Connecticut - Agricultural Experiment Station	760,964	4.1	0.0	2.6	0.0	6.7
Connecticut - University of Connecticut	926,420	1.5	4.0	0.5	1.0	7.0
District of Columbia - University of the District of Columbia	653,248	1.4	2.2	0.7	0.2	4.5
Delaware - University of Delaware	1,229,518	9.0	0.0	0.0	0.0	9.0
Florida - University of Florida	2,801,740	9.0	7.8	12.4	7.8	37.0
Georgia - University of Georgia	3,116,576	11.9	11.2	14.0	3.3	40.3
Hawaii - University of Hawaii	969,509	4.1	2.0	0.1	6.6	12.8
Idaho - University of Idaho	1,999,755	4.5	2.5	1.7	3.3	12.1
Illinois - University of Illinois	5,099,002	12.3	32.0	3.1	9.2	56.6
Indiana - Purdue University	5,088,652	14.7	23.3	3.2	17.1	58.4
Iowa - Iowa State University	4,810,610	10.7	19.4	0.9	18.3	49.4
Kansas - University of Kansas	3,018,644	9.7	18.2	5.2	3.7	36.8
Kentucky - University of Kentucky	4,747,019	12.6	17.4	17.0	16.7	63.7
Louisiana - Louisiana State University	3,004,347	10.1	16.2	1.5	5.7	33.6
Massachusetts - University of Massachusetts	1,955,794	2.2	0.4	1.0	1.3	4.9
Maryland - University of Maryland	2,334,726	8.7	11.7	7.6	5.9	34.0
Maine - University of Maine	1,737,636	6.1	7.0	3.0	0.1	16.2
Michigan - Michigan State University	4,813,462	9.6	23.9	2.3	12.9	48.7
Minnesota - University of Minnesota	4,685,422	11.3	22.4	5.0	12.6	51.2
Mississippi - Mississippi State University	3,813,594	7.4	14.9	4.3	18.1	44.7
Missouri - University of Missouri	4,466,720	5.3	11.7	2.1	4.4	23.5
Montana - Montana State University	2,039,082	4.7	8.1	3.9	2.5	19.2
North Carolina - N C State University	6,554,499	15.3	30.9	28.8	4.5	79.5
North Dakota - North Dakota State University	2,262,825	7.3	16.8	2.5	1.5	28.1
Nebraska - University of Nebraska	3,121,395	7.4	15.2	12.3	2.9	37.8
Nevada - University of Nevada	1,151,535	2.9	2.4	0.6	1.5	7.4
New Hampshire - University of New Hampshire	1,367,602	5.2	5.9	0.8	0.0	11.9
New Jersey - Rutgers University	2,676,028	6.5	12.3	5.0	2.5	26.4
New Mexico - New Mexico State University	1,532,977	6.4	3.0	4.3	1.4	15.1
Northern Marianas - Northern Marianas College	655,092	2.0	2.5	2.5	0.5	7.5
New York - Cornell University	4,105,397	13.1	19.0	6.6	43.3	81.9
New York - Geneva Agricultural Experiment Station	907,354	3.1	3.2	2.2	5.2	13.7
Ohio - Ohio State University	5,576,441	15.5	21.7	11.8	15.8	64.8
Oklahoma - Oklahoma State University	2,926,729	7.4	17.5	4.0	3.0	31.8
Oregon - Oregon State University	2,706,547	8.6	10.7	1.6	4.2	25.1
Pennsylvania - Pennsylvania State University	5,801,386	28.1	43.9	6.2	11.5	89.7
Puerto Rico - University of Puerto Rico	3,734,686	14.2	2.4	15.8	78.1	110.5
Rhode Island - University of Rhode Island	934,403	3.9	0.7	0.0	0.8	5.4
South Carolina - Clemson University	3,219,084	12.0	9.1	14.7	11.9	47.6
South Dakota - South Dakota State University	2,387,271	8.2	15.5	4.6	10.0	38.3
Tennessee - University of Tennessee	4,662,627	11.1	22.2	4.8	14.9	53.0
Texas - Texas A&M University	5,874,304	11.9	34.0	5.6	9.9	61.4
Utah - Utah State University	1,711,469	5.2	5.2	2.7	0.6	13.7
Virginia - Virginia Polytechnic Institute and State University	3,918,210	8.1	16.5	15.2	2.8	42.6
Virgin Islands - College of the Virgin Islands	792,599	2.0	4.8	7.0	1.4	15.2
Vermont - University of Vermont	1,374,176	4.3	4.8	3.8	1.4	14.3
Wisconsin - University of Wisconsin	4,821,058	8.3	33.4	4.9	2.4	49.1
Washington - Washington State University	3,460,979	9.0	13.2	8.7	8.6	39.6
West Virginia - West Virginia University	2,394,300	9.0	5.4	7.2	11.1	32.7
Wyoming - University of Wyoming	1,464,347	3.4	1.9	2.8	0.9	9.1
TOTAL	\$163,278,638	455.4	716.6	309.9	427.8	1,909.7

Note:

These staffing levels represent positions supported directly through Hatch allocations as reported by recipient institution in the Current Research Information System (CRIS).

Hatch appropriations are matched by state and other funds, resulting in total project staffing which may exceed levels reported here.

Recipients have the flexibility to use Hatch funds for personnel or other cost as they meet the needs of their community.

MCINTIRE-STENNIS FORESTRY GRANTS

Recipients of McIntire-Stennis funds have the flexibility to distribute funds among research projects, infrastructure, and personnel as they wish to meet the needs of their university. The distribution of these dollars varies from State to State. The latest data on personnel supported with McIntire-Stennis funds as reported into the Current Research Information System (CRIS) by recipients of McIntire-Stennis Funds is for fiscal year 2004. The recipient institutions do not assemble the data until the close of the fiscal year and then the reporting process requires approximately 6 months. The fiscal year 2005 data is being collected now but not all institutions have made their reports available yet. Therefore, we do not have complete

data for fiscal year 2005 at this point. The recipient institutions do not report estimates to CSREES so estimates for fiscal years 2006 and 2007 are not available.

The information is submitted for the record.

[The information follows:]

SUMMARY OF PERSONNEL SUPPORTED WITH MCINTIRE-STENNIS FUNDS

University/Recipient	McIntire-Stennis Funds	Scientist Support	Professional Support	Technical Support	Clerical Support	Total Support
Alabama - Auburn University	714,552	2.3	5.0	0.2	0.3	7.8
Alaska - University of Alaska	495,283	2.7	0.7	2.2	0.6	6.2
Arizona - Northern Arizona University, Flagstaff	180,082	0.4	1.5	0.1	0.1	2.1
Arizona - University of Arizona	180,532	0.5	1.4	0.5	0.2	2.6
Arkansas - University of Arkansas	602,925	2.6	3.4	0.0	0.5	6.5
California - University of California, Arcata	97,714	0.3	0.4	0.1	0.0	0.8
California - University of California, Berkeley	459,721	1.2	2.7	1.4	1.0	6.2
California - University of California, San Luis Obispo	97,445	0.2	0.3	0.1	0.3	1.0
Colorado - Colorado State University	347,276	0.6	3.2	0.8	1.0	5.6
Connecticut - Agricultural Experiment Station	169,635	0.9	0.0	1.1	0.0	2.0
Connecticut - University of Connecticut	55,490	0.2	0.2	0.0	0.0	0.4
Delaware - University of Delaware	78,173	0.2	0.0	0.0	0.0	0.2
Florida - University of Florida	543,945	1.5	2.7	1.3	0.7	6.2
Georgia - University of Georgia	700,602	3.3	0.0	0.0	0.0	3.3
Hawaii - University of Hawaii	168,553	0.6	0.3	0.0	0.9	1.7
Idaho - University of Idaho	405,725	0.7	0.2	0.0	0.0	0.9
Illinois - Southern Illinois University	150,841	0.2	0.9	0.0	0.1	1.2
Illinois - University of Illinois	147,788	0.6	1.2	0.0	0.1	1.8
Indiana - Purdue University	333,821	1.2	2.0	0.0	0.6	3.9
Iowa - Iowa State University	253,533	1.0	2.1	0.0	0.6	3.7
Kansas - University of Kansas	140,422	0.4	0.1	0.8	0.4	1.7
Kentucky - University of Kentucky	454,919	0.6	0.4	1.2	0.9	3.1
Louisiana - Louisiana State University	431,466	1.7	4.4	8.2	5.2	19.5
Louisiana - Louisiana Tech University	184,914	0.7	0.5	0.0	0.3	1.5
Maine - University of Maine	562,559	1.9	2.6	0.5	0.2	5.3
Maryland - University of Maryland	239,635	1.2	0.9	0.5	1.2	3.7
Massachusetts - University of Massachusetts	253,063	0.3	0.0	0.0	0.2	0.6
Michigan - Michigan State University	192,004	0.5	0.9	0.1	1.0	2.4
Michigan - Michigan Technological University	192,005	0.9	1.1	0.2	0.0	2.2
Minnesota - University of Minnesota	453,687	1.0	3.0	0.1	1.4	5.6
Mississippi - Mississippi State University	710,566	1.6	4.0	0.3	1.7	7.6
Missouri - University of Missouri	441,463	0.6	2.8	0.3	0.5	4.2
Montana - University of Montana	386,599	1.3	4.4	1.9	0.9	8.5
Nebraska - University of Nebraska	172,359	0.5	0.3	0.2	0.0	1.0
Nevada - University of Nevada	131,993	0.4	0.5	0.1	0.2	1.1
New Hampshire - University of New Hampshire	320,365	1.3	1.7	0.0	0.0	3.0
New Jersey - Rutgers University	172,359	0.6	0.8	0.9	0.6	3.0
New Mexico - New Mexico State University	280,001	1.1	0.5	0.7	0.7	3.0
New York - Cornell University	156,178	0.7	0.3	0.3	0.6	2.0
North Carolina - N C State University	692,221	1.4	3.8	0.5	0.8	6.5
North Dakota - North Dakota State University	91,629	0.4	0.6	0.0	0.1	1.1
Ohio - The Ohio State University	374,187	0.9	1.5	0.4	0.8	3.7
Oklahoma - Oklahoma State University	387,643	1.4	3.3	0.8	0.0	5.6
Oregon - Oregon State University	697,111	1.9	0.6	1.4	0.5	4.4
Pennsylvania - Pennsylvania State University	491,971	3.1	4.1	0.0	1.7	9.0
Puerto Rico - University of Puerto Rico	105,000	0.1	0.0	0.1	0.1	0.4
Rhode Island - University of Rhode Island	63,559	0.3	0.0	0.0	0.0	0.3
South Carolina - Clemson University	535,649	2.1	1.7	2.8	2.1	8.8
South Dakota - South Dakota State University	117,250	0.2	1.7	0.0	1.7	3.7
Tennessee - University of Tennessee	535,095	1.2	3.9	0.8	0.6	6.5
Texas - Stephen F. Austin State University	318,348	0.1	0.5	0.0	0.1	0.7
Texas - Texas A&M University	334,371	0.9	2.2	0.2	0.0	3.3
Utah - Utah State University	199,270	1.2	0.0	0.0	0.0	1.2
Vermont - University of Vermont	280,003	0.1	0.8	0.2	0.2	1.2
Virgin Islands - College of the Virgin Islands	46,681	0.3	0.3	1.0	0.2	1.8
Virginia - Virginia Polytechnic Institute and State University	589,469	1.4	3.6	1.0	0.7	6.6
Washington - University of Washington	345,307	0.0	0.0	0.0	0.0	0.0
Washington - Washington State University, Pullman	294,508	0.7	1.7	0.4	0.1	2.9
West Virginia - West Virginia University	423,114	1.9	1.4	0.6	0.8	4.7
Wisconsin - University of Wisconsin	481,828	1.5	4.7	0.0	0.4	6.6
Wyoming - University of Wyoming	199,270	0.6	0.6	0.0	0.1	1.3
TOTAL	\$19,663,677	60.2	94.7	34.5	33.9	223.3

Note:

These staffing levels represent positions supported directly through McIntire-Stennis allocations as reported by recipient in Current Research Information System (CRIS).

McIntire-Stennis appropriations are matched by state and other funds, resulting in total project staffing which may exceed levels reported here.

Recipients have the flexibility to use McIntire-Stennis funds for personnel or other costs as they wish to meet the needs of their university.

ANIMAL HEALTH AND DISEASE RESEARCH

Recipients of Animal Health and Disease Research funds have the flexibility to distribute funds among research projects, infrastructure, and personnel as they wish

to meet the needs of their university. The distribution of these dollars varies from State to State. The latest data on personnel supported with Animal Health and Disease funds as reported into the Current Research Information System (CRIS) by recipients of Animal Health and Disease Funds is for fiscal year 2004. The recipient institutions do not assemble the data until the close of the fiscal year and then reporting process requires approximately 6 months. The fiscal year 2005 data is being collected now but not all institutions have made their reports available yet. Therefore, we do not have complete data for fiscal year 2005 at this point. The recipient institutions do not report estimates to CSREES so estimates for fiscal years 2006 and 2007 are not available.

The information is submitted for the record.

[The information follows:]

SUMMARY OF PERSONNEL SUPPORTED WITH ANIMAL HEALTH AND DISEASE RESEARCH
PROGRAM FUNDS IN FISCAL YEAR 2004

University/Recipient	Animal Health Funds	Scientist Support	Professional Support	Technical Support	Clerical Support	Total Support
Alabama - Auburn University	35,742	0.1	0.0	0.1	0.0	0.2
Alabama - Auburn University, Vet School	39,420	0.1	0.0	0.1	0.1	0.2
Alaska - University of Alaska	2,821	0.0	0.0	0.1	0.0	0.1
Arizona - University of Arizona	48,069	0.1	0.3	0.0	0.0	0.4
Arkansas - University of Arkansas	104,428	0.2	0.8	0.0	0.1	1.0
California - University of California, Berkeley	132,616	0.2	0.7	0.1	0.2	1.3
California - University of California, Davis, Vet School	386,407	1.5	2.2	0.4	0.2	4.3
Colorado - Colorado State University, Vet School	170,175	0.2	0.8	0.1	0.2	1.3
Connecticut - University of Connecticut, Storrs	16,813	0.0	0.1	0.0	0.0	0.1
Delaware - University of Delaware	24,133	1.0	0.0	0.0	0.0	1.0
Florida - University of Florida	58,186	0.3	0.0	0.1	0.0	0.4
Florida - University of Florida, Vet School	17,957	0.1	0.0	0.1	0.0	0.2
Georgia - University of Georgia	12,770	0.0	0.0	0.1	0.0	0.1
Georgia - University of Georgia, Vet School	98,100	0.3	0.7	0.1	0.1	1.2
Hawaii - University of Hawaii	2,412	0.0	0.0	0.0	0.0	0.0
Idaho - University of Idaho	48,370	0.0	0.0	0.0	0.0	0.0
Illinois - University of Illinois	114,424	0.4	0.7	0.0	0.1	1.2
Indiana - Purdue University	59,153	0.1	0.2	0.2	0.2	0.8
Iowa - Iowa State University	53,463	0.0	0.5	0.0	0.3	0.8
Iowa - Iowa State University, Vet School	161,370	1.6	1.8	1.7	0.4	5.5
Kansas - Kansas State University	106,098	0.0	0.1	0.2	0.1	0.5
Kentucky - University of Kentucky	52,936	0.3	0.5	0.1	0.2	1.1
Louisiana - Louisiana State University	33,181	0.1	0.2	0.0	0.0	0.3
Louisiana - Louisiana State University, Vet School	32,485	0.1	0.0	0.1	0.0	0.3
Maine - University of Maine	16,306	0.0	0.0	0.1	0.0	0.2
Maryland - University of Maryland	23,030	0.3	0.7	0.3	0.4	1.7
Massachusetts - University of Massachusetts	5,271	0.0	0.0	0.0	0.1	0.1
Massachusetts - University of Massachusetts, Vet School	4,386	0.1	0.0	0.0	0.0	0.1
Michigan - Michigan State University	87,576	0.2	0.3	0.0	0.1	0.5
Minnesota - University of Minnesota	58,553	0.4	0.0	0.0	0.1	0.5
Minnesota - University of Minnesota, Vet School	114,374	0.3	0.0	0.0	0.0	0.3
Mississippi - Mississippi State University, Vet School	75,795	0.3	0.2	0.3	0.0	0.7
Missouri - University of Missouri	43,834	0.0	0.0	0.0	0.0	0.0
Missouri - University of Missouri, Vet School	123,591	0.8	0.1	0.0	0.0	1.0
Montana - Montana State University	47,850	0.0	0.0	0.0	0.0	0.0
Nebraska - University of Nebraska	132,560	0.2	0.6	0.7	0.0	1.5
Nevada - University of Nevada	9,600	0.0	0.0	0.0	0.0	0.0
New Jersey - Rutgers University	25,417	0.1	0.1	0.0	0.0	0.2
New Mexico - New Mexico State University	34,311	0.1	0.1	0.0	0.1	0.3
New York - Cornell University	36,472	0.0	0.1	0.0	0.0	0.1
New York - Cornell University, Vet School	47,169	0.3	0.0	0.0	0.0	0.3
North Carolina - N C State University	35,748	0.1	0.1	0.2	0.1	0.5
North Carolina - N C State University, Vet School	115,412	0.2	0.0	0.6	0.0	0.8
North Dakota - North Dakota State University	27,507	0.1	0.2	0.0	0.1	0.4
Ohio - Ohio State University	56,681	0.1	0.4	0.1	0.1	0.7
Ohio - Ohio State University, Vet School	27,085	0.4	0.8	0.5	0.2	1.9
Oklahoma - Oklahoma State University	116,396	0.2	0.9	0.0	0.4	1.4
Oregon - Oregon State University	74,979	0.0	0.0	0.0	0.0	0.0
Pennsylvania - Pennsylvania State University	53,795	0.2	0.3	0.0	0.0	0.6
Pennsylvania - University of Pennsylvania, Vet School	117,689	0.1	0.4	0.0	0.0	0.5
South Carolina - Clemson University	17,316	0.0	0.0	0.1	0.1	0.3
South Dakota - South Dakota State University	60,449	0.3	0.8	0.0	0.3	1.3
Tennessee - University of Tennessee	27,649	0.0	0.2	0.2	0.0	0.4
Tennessee - University of Tennessee, Vet School	15,552	0.0	0.1	0.0	0.0	0.1
Texas - Texas A&M University	278,808	0.4	1.6	0.3	0.0	2.3
Utah - Utah State University	26,271	0.1	0.0	0.0	0.0	0.1
Vermont - University of Vermont	12,639	0.0	0.0	0.0	0.0	0.0
Virginia - Virginia Polytechnic Institute and State University	67,447	0.3	0.1	0.2	0.0	0.6
Washington - Washington State University	9,270	0.1	0.0	0.0	0.0	0.1
Washington - Washington State University, Vet School	91,833	0.0	0.5	0.7	0.0	1.2
West Virginia - West Virginia University	21,253	0.1	0.0	0.1	0.1	0.2
Wisconsin - University of Wisconsin	129,438	0.2	0.5	0.0	0.1	0.8
Wyoming - University of Wyoming	28,419	0.1	0.1	0.0	0.0	0.2
TOTAL	\$4,109,250	12.8	18.6	8.1	4.5	44.0

Note:

Animal Health & Disease Research Program appropriations are matched by state and other funds, resulting in total project staffing which may exceed levels reported here.

Recipients have the flexibility to use Animal Health & Disease Research Program funds for personnel or other cost as they wish to meet the needs of their university.

The staffing levels represent positions supported directly through Animal Health & Disease Research Program allocations as reported by recipient institutions in Current Research Information System (CRIS).

The Land Grant University System is supported through a broad portfolio of funding mechanisms at the Federal, State, and in the case of Cooperative Extension, the local level. The proposal in the fiscal year 2007 President's budget for CSREES seeks to expand the proportion of Federal funding flowing to agricultural research through credible, competitive processes, while building on the strengths of land grant universities to work together to solve research-based problems. University and USDA staff members currently are working together to design a multi-state pro-

gram implementation plan such that universities could address issues of great importance locally, which collectively achieve regional or national goals in agriculture. The plan recognizes the value of expanding the capacity at smaller institutions through joint and collaborative work, addressing issues on local and State agendas to assure matching funds for the programs, and recognizing the geographically diverse nature of agriculture and natural resources.

Issues which could be addressed through expanded multi-state and institutional collaboration include animal and plant disease, including current issues such as citrus greening and Asian soybean rust; water availability and management; best practices for small-sized agricultural producers. In addition, the multi-institutional research program has been used to expand access to subject matter colleagues across State lines, rapidly respond to emerging issues, and sustain national research support efforts, such as pesticide clearance.

By sustaining funding through the Hatch and McIntire-Stennis programs, the President's budget proposal responds to concerns expressed by universities in previous years about retaining matching requirements, allowing planning and management of programs to remain in the context of the Agricultural Experiment Stations (AES) and Cooperative Forest Research programs, and proving continuity and planning through a full, 5 year award cycle to AES directors and Administrative Technical Representatives (McIntire-Stennis managers) for each multi-state project in which a State participates.

Question. The Land Grant University System is currently undertaking a comprehensive review of all of these programs and how they might be changed in the context of the 2007 Farm Bill to meet the 21st century challenges facing agriculture, rural communities, and our entire food and fiber system through research, extension and teaching. Do you agree that such changes can best be considered through a collaborative process with an eye toward the 2007 Farm Bill as opposed to the implementation of drastic changes imposed unilaterally by USDA?

Answer. Although revising the Farm Bill to restructure the research agencies at the U.S. Department of Agriculture could address some of the issues regarding sustainability of funding for science, other concerns such as competitiveness, quality and coordination of programs and projects, and linkage to other Federal Science programs also can be addressed through budget allocations and mechanisms.

Question. Rather than imposing these drastic changes now, would you be willing to continue engage the Land Grant System in their efforts to review and build consensus for changes in our collaborative research, extension and teaching efforts?

Answer. Currently, University and USDA staff members are working together to design a multi-state program implementation plan such that universities could address issues of great importance locally, which collectively achieve regional or national goals in agriculture.

FARM PROGRAM FUNDING

Question. I applaud President Bush's proposal to reduce the payment limit from its current \$360,000 level to \$250,000. I've voted for lowering this limit in the past and I continuing to believe the payment limit should be lowered from its current level. Obviously, this could help play a role in reining in government spending. I also believe tougher enforcement on those who circumvent the payment limits could help us spend less money in commodity payments.

What commitment level does this administration give to lowering payment limits, strengthening enforcement when loopholes are found and developing a measurable standard to determine who should and should not be receiving farm subsidies?

Answer. The President's Budget for fiscal year 2007 includes a package of proposed farm program changes for the purpose of reducing spending in these programs as part of the effort to reduce the budget deficit. One of these proposals would reduce payment limits and significantly reform current payment limitation law. Among other things the proposal would reduce the overall payment limit from \$360,000 to \$250,000 per natural person. It would establish a form of direct attribution and strengthen provisions for enforcement against loopholes. These proposals would apply to the remainder of the 2002 Farm Bill.

NATIONAL ANIMAL IDENTIFICATION SYSTEM (NAIS)

Question. If States and private industry were to contribute the same amount of funding as the Federal Government for the implementation of the NAIS—\$33 million per year in this budget request and in the previous 2 years—would it be possible to maintain the implementation timeline outlined in the Department's May 2005 Draft Strategic Plan (i.e., full program implementation by January 2009)? If not, what percentage of the total funding would have to come from outside the Fed-

eral Government in order to have an animal ID system fully operational by January 2009—would States and private industry be responsible for two-thirds of the funding, or three-fourths, or more?

Answer. NAIS will be a fully operational system in early 2007 and consist of three main components: premises registration, animal identification, and animal tracking. Premises registration has been implemented in all 50 States and 2 Territories. Several Tribes are also registering their premises. In March, APHIS will begin distributing animal identification numbers. We anticipate the remaining systems elements will be operational in early 2007, but private entities will need to supply information to fill the private databases.

Question. Does USDA have the authority under the Animal Health Protection Act, or any other statute, to require a mandatory animal identification program? Does the transfer of the animal-tracking database to the private sector affect the Department's ability to mandate participation as originally envisioned in the May 2005 Draft Strategic Plan?

Answer. The Animal Health Protection Act provides authority to issue regulations establishing a mandatory National Animal Identification System. The inclusion of State or private animal movement tracking systems within the NAIS would not alter the Department's authority to mandate participation.

SERICEA LESPEDEZA

Question. Sericea lespedeza is an important Federal field crop in the southeastern United States, but it is an invasive species in the central plains States, including my home State of Kansas, as it destroys the ecological balance of tallgrass prairie lands. Currently, conservation efforts in Kansas' tallgrass prairie cannot sequester USDA's assistance to find ecologically/economically compatible controls for Sericea lespedeza because of its status as a Federal field crop through APHIS. However, we need to address this critically important issue affecting our prairie before it's too late.

How can we find a way to ascertain USDA's help in controlling this destructive invasive species in Kansas while ensuring that these methods of control do not compromise Sericea's production in the southeastern United States? Would APHIS be open to providing varying regional statuses for Sericea lespedeza?

Answer. There is no formal definition of a "Federal field crop." APHIS' focus is on quarantine pests. The offending pest must be new to the United States, or present but not known to be widely distributed in the United States and currently under an active control program. *S. lespedeza* has been in the country for more than a century and is in at least 60 percent of the States. Consequently, it does not meet the requirements of a quarantine pest.

However, regional effort is an option that could be pursued using State statutes. Currently, Kansas is the only State that regulates *S. lespedeza* as a State noxious weed.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

HORSE SLAUGHTER/USER FEES

Question. Meat inspection user fees have been proposed many times, but have ultimately been rejected by Congress because the general assumption was that statutory authorization was required before the Department could collect fees. However, based on your recently announced rule for fee inspection, and the subsequent court ruling, USDA apparently CAN collect user fees without explicit statutory language. Now that USDA lawyers assert that these fees can be collected, it seems this dramatically changes the dynamic.

Can Congress assume that USDA still believes it has legal authority to collect these fees?

Answer. User fees have been proposed for inspection under the Federal Meat Inspection Act (FMIA), the Poultry Products Inspection Act (PPIA), and the Egg Products Inspection Act (EPIA), because these statutes only authorize user fees for overtime and holidays. The Agricultural Marketing Act of 1946 provides USDA the legislative authority to collect user fees for ante-mortem inspection of horses. This authority also authorizes the collection of fees for other types of voluntary meat and poultry inspection activities, including inspection of species not covered by the FMIA.

Question. Since USDA prevailed in court on the question of fees for horse inspection, does that same legal theory apply to other meat and poultry inspections, including those activities for which user fees are proposed in the budget?

Answer. Under the Agricultural Marketing Act of 1946 (AMA), USDA is directed and authorized to provide, when requested, inspection of eligible species on a fee-for-service basis. Such fee-for-service inspections have long been provided by FSIS inspection program personnel for other species not eligible for inspection or not eligible to receive certain types of services under the FMIA. The AMA does not provide the authority necessary to recover the costs of providing inspection services under the FMIA, PPIA, or the EPIA.

Question. Is USDA still in favor of user fees as a way to pay for meat and poultry overtime inspections?

Answer. Yes. USDA will continue to recover the costs of providing overtime and holiday inspection through user fees. In addition, legislation will be submitted to Congress to authorize fees to recover the costs of providing inspection beyond a single approved primary shift.

Question. Since the President's budget simply asks us to provide \$757 million for FSIS, can Congress assume that you will be able to support all FSIS activities through the new user fees you propose whether or not the authorization committee takes action? If not, what is your contingency plan—what's going to get cut?

Answer. The President's 2007 budget requests \$863 million, the full amount of budget authority needed to operate FSIS' inspection services. We are requesting authority to charge user fees, deposit the fees into special receipt accounts, and use the fees subject to appropriations.

FOOD SAFETY BUDGET TRENDS

Question. According to an OMB document published on January 23rd, fiscal year 2008 budget for FSIS decreases by \$27 million from the fiscal year 2007 proposed level, and that trend continues.

Should we be prepared for a trend in requesting fewer dollars for food safety activities? If these decreases on this OMB document actually occur over the next 5 years—one analysis maintains that it will equal a 17 percent cut—what activities are going to suffer?

Answer. The fiscal year 2007 budget documents include estimates for fiscal year 2008 and beyond that reflect the President's commitment to reduce the Federal deficit in half by fiscal year 2009. These out-year estimates are computer generated using set formulae that do not reflect policy decisions. No conclusion on the administration's priorities for food safety or other USDA activities should be drawn from these numbers.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Question. How much carryover did CSFP have at the end of fiscal year 2005?

Answer. At the end of fiscal year 2005, the Commodity Assistance Food Program (CSFP) had a carryover amount of \$118,000.

Question. How much will be used to help fund the fiscal year 2006 Shortfall? If this will not occur, please explain the reasoning, especially since the budget proposes to eliminate the program next year, making carryover into 2007 unnecessary.

Answer. All of the fiscal year 2005 carryover funds will be used in 2006. We plan to use all of the fiscal year 2005 funds in 2006.

Question. What is the status of the \$4 million additional funding provided for CSFP in the last supplemental? Could this be used to help the fiscal year 2006 shortfall? If not, why?

Answer. The supplemental assistance will be offered to the three Gulf-area CSFP States that were directly affected by the hurricanes (Louisiana, Mississippi and Texas). These three CSFP States have the vast majority (over 93 percent) of all disaster assistance applicants. The assistance will be provided in the form of caseload, administrative funds, and commodities.

The supplemental funding cannot be used to make up the fiscal year 2006 shortfall. The legislation that provided the supplemental funding to CSFP requires that the supplemental funding be used "for necessary expenses related to the consequences of Hurricane Katrina" Therefore, these funds cannot be used to restore caseload to all CSFP States.

Question. Has there ever been a full evaluation of the CSFP, other than the administration's PART review, which stated that CSFP was a good alternative to the Food Stamp Program for senior citizens? If not, why wasn't one planned or carried out before this elimination?

Answer. There is very limited information on the impact of the CSFP on participants' nutrition and health status, and no evaluation of which we are aware that characterized the program as a good alternative to the Food Stamp Program. A 1982 evaluation examined administrative and medical records data from 3 CSFP sites

and found positive impacts for pregnant women and suggestive evidence of positive impacts for children. However, the program has changed substantially since this study was done. In particular, it did not include the elderly, who now account for about three-fourths of program participants.

In 2005, the Economic Research Service began a study to examine participation and administrative issues related to the CSFP, including how CSFP fits into States' overall designs to address food insecurity among target populations, why some States choose not to participate, and who among those eligible tends to participate. The study will be published in early 2007.

Though questions have been raised about the effectiveness of CSFP, other important factors influenced the administration's decision to eliminate program funding. The key consideration influencing this decision is that the program is not available nationally and is substantially redundant of other nutrition assistance programs that are available nationally.

In the administration's view, ensuring adequate funding for programs that have the scope and reach necessary to provide access to eligible people wherever they may reside is a better and more equitable use of scarce resources than to allocate them to programs that cannot provide access to many areas of the country. For this reason, the administration has placed a priority on funding the Food Stamp, WIC, and other nationally-available programs that provide benefits to eligible people wherever they may live.

Question. How many senior citizens do you estimate will be ineligible for the Food Stamp Program, or may choose not to participate for other reasons?

Answer. Based on the best-available national information on the circumstances of all low-income elderly, we estimate that about 101,000 elderly CSFP participants will not be eligible for food stamps, largely because they hold countable assets that put them over the Food Stamp Program's resource limit. Our budget request assumes that 88,000 CSFP participants will make the transition to food stamps and that about 118,000 will choose not to even though they are eligible. We are prepared, however, to use the requested food stamp benefit reserve if necessary to support participation by all who are eligible. We have also requested \$2 million for outreach to encourage elderly CSFP participants to participate in Food Stamps.

Question. What is the average market value of the food boxes received in the CSFP program by seniors, and how does that compare to the \$20 in temporary assistance you are offering to provide?

Answer. We estimate that a CSFP food package for elderly participants would have a retail value of approximately \$42.35, on average, if purchased at retail prices in 2005. However, this cost could vary greatly depending on type, brand, etc. of foods in the package. In comparison, the average food stamp benefit for a senior living alone was \$65 per month in 2004.

GIPSA OIG AUDIT

Question. I know that USDA is taking specific actions to try to fix all of the problems identified in a recent OIG audit of GIPSA. However, in 1997 and in 2000 GIPSA was reviewed and changes were suggested, but problems weren't fixed.

Why will this time be different? How will you regain the confidence of the markets GIPSA is supposed to protect?

Answer. GIPSA intends to restore confidence by implementing all recommendations in the OIG report. GIPSA has already issued policy directives in response to several of the recommendations and is initiating a review process to ensure that the directives are being followed and implemented properly.

However, GIPSA has gone further than just the OIG recommendations. For example, the agency has requested a full scale organizational review to provide recommendations on how to improve the agency's operational effectiveness. Also, the new GIPSA Administrator recently ordered an Office of Personnel Management-administered Organizational Assessment Survey. The survey gives employees an anonymous opportunity to let the Administrator know what they think about the organization on a range of topics. Results will be used to make decisions about work environment improvements in the program and enhance its organizational effectiveness. The Administrator is also working to develop an organizational culture to ensure at all levels a recommitment to OIG and GAO recommendations and to redirect resources to achieve mission-critical activities.

Question. On January 24th, I sent a letter to the Justice Department's Special Counsel for Agriculture, with a copy to USDA, encouraging them to work with you to prevent anti-competitive market conditions—especially while GIPSA is still working to improve its efforts. Have you, or anyone from USDA, been in touch with the Justice Department? Do you plan to work with them?

Answer. USDA has undertaken a number of initiatives related to working with the Department of Justice (DOJ). First, an economist from GIPSA's Industry Analysis Division, has been detailed to work at DOJ for 4 months on a case. GIPSA is also currently working in collaboration with DOJ on an anti-competitive investigation. Finally, GIPSA has a memorandum of understanding between the Office of General Counsel (OGC) at USDA and DOJ in place. Already DOJ and OGC are coordinating on relevant issues where warranted.

Question. Since this report came out after the budget was written, do you now think you need additional resources in order to implement all of OIG's recommendations?

Answer. GIPSA is conducting an evaluation of program resources. If changes to resources are needed, they will be taken into consideration for the 2008 budget request.

SMALL FARM/DIRECT MARKETING

Question. Can you point to any actions USDA has taken recently to help small producers work through regulatory problems that might stifle their ingenuity? Last year we provided funds for a new program to help promote farmers markets and other outlets for small producers, but they are not included in your budget.

Answer. USDA has many programs that enhance the reliability and economic livelihood of small farmers and ranchers across America. Through these programs we actively encourage the growth and continuation of small, limited-resource, and minority farmers and ranchers, as well as local communities. Through outreach, research, market development, financial support, and technical assistance we are helping them compete.

In January 2006, USDA issued its third progress and achievement report entitled "Making a Difference for America's Small Farmers and Ranchers in the 21st Century." This report highlights USDA's continuing efforts to assist the Nation's small farmers, ranchers, and farm workers. It identifies the major achievements and continuing actions taken by USDA in response to the 8-policy goals and 146 recommendations included in the USDA National Commission on Small Farms' report, *A Time to Act*.

The Farmers Market Promotion Program is included in USDA's fiscal year 2007 budget. Following Congressional approval of funds for the administration of the Farmers Market Promotion Program for fiscal year 2006, USDA has been rapidly implementing this grants program through the Agricultural Marketing Service. The program is designed to facilitate and promote farmers markets and other direct-to-consumer marketing channels for farm products. By the end of fiscal year 2006, AMS will administer approximately \$1 million in grants, with a statutory maximum of \$75,000 per grant, to eligible entities. A Notice of Funds Availability for the Farmers Market Promotion Program was published in the Federal Register on March 15, 2006. The Notice invites eligible entities to submit project proposals to AMS by May 1, 2006. Eligible entities include agricultural cooperatives, local governments, non-profit corporations, public benefit corporations, economic development corporations, regional farmers' market authorities, and Tribal governments. Grants will be awarded on a competitive basis following a comprehensive internal review.

Question. What initiatives have you proposed to assist small farmers, to encourage their creativity, and to help American farmers remain independent?

Answer. USDA's budget for fiscal year 2007 proposes to continue the Farmers Market Promotion Program, which is designed to facilitate and promote farmers markets and other direct-to-consumer marketing channels for farm products. In addition, AMS offers technical assistance useful to small farmers through its ongoing Wholesale, Farmers, and Alternative Markets and Transportation Services programs. Examples of recent initiatives include the creation of a Farmers Market Consortium in November 2005, bringing together Federal agencies and private foundations that support development of farmers markets which has already produced and released a Farmers Market Resource Guide in March 2006. Also, the Federal-State Marketing Improvement Program offers grants that encourage creative solutions to local and regional agricultural marketing challenges.

BSE—JAPANESE EXPORTS

Question. One of the things USDA is doing in response to the recent shipment of banned material to Japan is re-training the FSIS inspectors to make sure this never happens again.

What is the status of that training, and what, exactly does it entail?

Answer. On January 23, 2006, USDA's Food Safety and Inspection Service (FSIS) conducted interactive web-based training for its inspection program personnel at Ex-

port Verification (EV)-approved establishments. All FSIS inspection program personnel currently assigned to an establishment with an approved EV program completed the on-line training course by March 21, 2006.

FSIS inspection personnel are provided computer-based follow-up and supplemental training. Inspectors who rotate into any establishment that produces product that is subject to EV requirements will also undergo training. All new employees hired after March 2006 will receive training.

FSIS' EV training reviews policies pertaining to Export Certification, Re-Inspection of Product intended for Export, and Certifying Beef Products under the EV Programs and all pertinent Export Directives.

To be certain that FSIS inspection program personnel are fully aware of specific products approved for export to countries participating in EV programs, the Agricultural Marketing Service (AMS) will maintain a list of specific products approved for export to each country on an internal Web site accessible to FSIS-trained inspection program personnel. AMS will also notify FSIS each time establishments are audited, listed or delisted for EV programs.

NON-AMBULATORY DISABLED CATTLE

Question. A recent OIG report on BSE surveillance notes that there has been some confusion regarding what constitutes a "downer" animal. I understand that the number of times this happened is extremely low—less than 50, I believe, out of all of the animals processed during the time of enhanced surveillance. However, I also understand the effect that even one case of BSE can have on our markets.

What steps is the Department taking in order to provide a more clear description of what animals are to be considered "downers"?

Answer. On January 12, 2004, USDA issued an interim final rule which includes requirements for the disposition of non-ambulatory disabled cattle. The preamble to the rule States, "FSIS is requiring that all non-ambulatory disabled cattle presented for slaughter be condemned" (Docket No. 03-025IF, Federal Register, January 12, 2004). The rule has not changed. However, in those extremely rare instances when a cow suffers an acute injury after passing ante mortem inspection and becomes non-ambulatory, the cow is not automatically condemned.

Under an FSIS notice issued January 18, 2006, the animal is tagged as "U.S. Suspect" (FSIS Notice 05-06). The "U.S. Suspect" designation was not created for this rare situation, but is a long-standing practice. Inspection program personnel conduct careful ante mortem reinspection of animals so designated. Pursuant to the notice, Public Health Veterinarians (PHVs) perform an examination on these animals to ensure that the injury is acute and not the result of a chronic condition. If there is any evidence of a chronic condition, or if the PHV cannot be sure the injury was not caused by a chronic condition, the notice provides that the animal is to be condemned.

A previous notice, issued on January 12, 2004, addressed this rare situation but did not provide for tagging. The application of a "U.S. Suspect" tag will help the Agency to better track occurrences in which acute injuries occur after ante mortem inspection at the slaughter plant.

All cattle tagged "U.S. Suspect" are eligible to go to slaughter. The "U.S. Suspect" designation indicates that the animal needs closer postmortem examination, and consequently the PHV makes the final postmortem disposition of every "U.S. Suspect" animal. All cattle designated as "U.S. Condemned" are banned from entering the slaughter establishment.

Question. Is additional training or information being provided to your inspectors in this regard?

Answer. Public Health Veterinarians (PHVs) have the requisite veterinary medical education to distinguish between chronic conditions and acute injuries. A significant part of PHV training is dedicated to determining acute versus chronic conditions. A chronic disposition often leads to condemnation because the condition is ongoing, whereas an acute condition would likely lead to condemnation of part of the animal.

BSE—JAPANESE EXPORTS

Question. I understand that as part of the "verification" program set up to ship beef to Japan, two signatures are required to ensure that the shipment does indeed meet Japanese requirements.

Are both of these signatures from FSIS employees?

Answer. As the result of the January 20, 2006, discovery of three boxes of veal with vertebral column shipped from the United States, in violation of the terms of our Export Verification (EV) agreement with Japan, I announced 15 Action Steps,

including the requirement of an additional signature during the EV process. Both the Agricultural Marketing Service (AMS) and the Food Safety and Inspection Service (FSIS) share the responsibility to confirm shipments for the EV program and employees from both agencies sign the documentation.

Question. Do both verification form signatories physically check to make sure the shipment meets the proper standards?

Answer. FSIS and AMS both have specific responsibilities for confirming that shipments meet the appropriate EV standards. These responsibilities do not require the signatories to physically check the shipment.

AMS confirms that both the establishment and products are approved for export to the importing country.

FSIS certifies and signs that all food safety requirements have been met. When signing an export certificate, an FSIS certifying official should receive the following from an establishment: (1) the original FSIS Form 9060-5, Meat and Poultry Export Certificate of Wholesomeness; (2) any other certificates required by the importing country; and (3) a copy of the letter from AMS that confirms that AMS conducted a review and that AMS has determined the items listed are approved for export to the country listed on the certificate and from the facilities listed.

If all documents are acceptable, the FSIS certifying official will sign all certifications and maintain a copy of the AMS letter in the government file along with the certifications.

Question. What steps is USDA taking to try to make the regulatory market more streamlined, as opposed to wide variety of requirements for each country to which we export?

Answer. Most market openings (with the exception of Japan, where the terms of the market opening were negotiated in October 2004) have been for boneless beef from cattle under 30 months of age. The terms of these market openings were guided largely by international guidelines as maintained by the World Organization for Animal Health (OIE) and by precedents set by major importers, including the terms that the United States applies to imports from other countries that have experienced BSE. While these openings have resulted in a number of different import requirements by country, these requirements were negotiated with the full cooperation and knowledge of the U.S. industry with the intention of getting back into the market as quickly as possible with at least some product and the understanding that greater access would be negotiated at a later date. In our current negotiations USDA is pushing for broader access for U.S. beef overseas, arguing that OIE guidelines permit more favorable access than boneless/under 30 months.

Question. I also understand that in this recent case of banned veal being sent to Japan, the inspector was an online inspector who was, according to FSIS regulations, not authorized to do the final inspection on this beef. Is this accurate?

Answer. No, this is not accurate, because the inspector was authorized to do the final inspection of this beef. The problem arose from USDA inspection program personnel and the Japanese importer lacked familiarity with USDA's bovine export verification (EV) requirements for Japan.

Question. What steps are you taking to prevent this from happening again, and to ensure that there are a sufficient number of offline inspectors to prevent online inspectors from having to perform duties they are not officially authorized to do?

Answer. The problems have been identified and appropriate actions have been taken. The problem was not related to an online inspector conducting activities that person was not authorized to perform. Rather, the problem was related to USDA inspection program personnel and the Japanese importer lacking familiarity with USDA's bovine EV requirements for Japan. In response to this incident, the establishments involved were immediately removed from the approved list, and extensive training has been conducted with all involved FSIS inspection program personnel. AMS and FSIS also have strengthened coordination between their personnel. Eligibility of both the establishment and the products for export must be confirmed by AMS prior to FSIS certifying export documents.

ALTERNATIVE FUELS

Question. Mr. Secretary, I believe you agree that American Agriculture has a strong role to play in energy development, so please explain why USDA's investments in this area are going down instead of up.

Answer. The fiscal year 2007 Budget supports an estimated \$345 million in loans, grants, research and other support for energy projects. These funds will support investments to encourage additional biofuels production, develop improved feedstocks and efficient conversion technologies and increase energy efficiency. The bioenergy incentives program, funded at \$60 million in 2006, expires at the end of 2006.

Question. What is the status of new technology and knowledge about feed stocks that U.S. farmers and rural business people can use to provide new, cleaner, and less costly, sources of energy for this country?

Answer. Progress is being made on the development of technologies for converting cellulosic biomass to useable energy. Commercial pilot facilities for fermenting agricultural residues such as wheat straw and corn stover to ethanol are either operational (Iogen—Ontario, CA) or under construction (Abengoa—York, Nebraska).

Companies are also scaling up new technologies for gasifying biomass and producing methane. For instance, Frontline Bioenergy (Ames, Iowa) and Chippewa Valley Ethanol Corporation (CVEC—Benson, Minnesota) announced that construction will begin this year on a facility to gasify distillers dried grains, and eventually corn stover. Their gasification unit will eventually displace over 90 percent of the natural gas now used at CVEC's Benson site. And Viresco Energy (Riverside, California) plans to build a pilot plant to gasify a mixture of coal and wood. Technology also exists to convert the product gas from biomass gasification to methanol or diesel fuel.

Technology is also being developed to pyrolyze biomass at or near the farm and produce an energy-dense bio-oil. The bio-oil could then be transported to a central refinery for conversion into hydrogen, diesel fuel or even gasoline.

In spite of this progress, however, significant technology development is needed before a sizable industry for producing energy from agricultural and/or woody biomass can be realized.

Question. What are USDA research and development programs doing to assist that effort?

Answer. The Agricultural Research Service (ARS) has a number of programs to develop technologies that will enable the growth of a sizable industry for producing energy from agricultural and/or woody biomass.

- ARS-Peoria, IL has a number of projects for improving the efficiency of fermenting cellulosic biomass to ethanol.
- ARS-Lincoln, NE and a number of other ARS facilities are involved in a critical project to understand the long-term impact of harvesting crop residues, such as corn stover, on farm soils.
- ARS-Albany, CA is working to sequence the genome of switchgrass, and to develop genetic tools for breeding new varieties of switchgrass with superior traits as an energy feedstock.
- ARS-Corvallis, OR and ARS-Wyndmoor, PA have partnered with the Western Research Institute to develop a portable gasifier for converting wheat and grass-seed straw into methane, rather than burning these residues in the field as is currently practiced.
- ARS-Wyndmoor, PA and ARS-University Park, PA are field-testing a portable gasifier for switchgrass.
- ARS-Florence, NC is developing a proposed program to gasify manure wastes into methane, thereby eliminating effluent lagoons and, at the same time, generating useful fuel.
- ARS-Albany, CA is developing a proposed program to investigate the fundamental, biological mechanisms involved in the production of cell walls, the component of plants that is the basis of all ligno-cellulosic biomass. This research is necessary to enable the breeding of new plants that will significantly lower the cost of biomass-derived energy.

Additionally, CSREES, through the National Research Initiative's Biobased Products and Bioenergy Production Research Program, supports activities which expand science-based knowledge and technologies that support the efficient, economical and environmentally friendly conversion of agricultural residuals into value-added industrial products and biofuels.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

USDA SERVICE CENTERS

Question. Since 1993, the county-based agencies have been implementing streamlining plans to cut red tape and co-locate offices in the same county, with the goal of providing one-stop service for USDA customers. However, we have also witnessed the erosion of this customer service objective, first with the replacement of local USDA Rural Development offices with area offices that serve multiple counties and more recently with the Farm Service Agency directive to State offices to identify offices that can be closed and consolidated.

If it is necessary to consider consolidating local offices, isn't it appropriate to consider the convenience of keeping together all agency services related to customer needs in any specific Service Center?

Answer. USDA utilizes the State Food and Agriculture Councils (SFACs) to provide a cross-agency, decision-making and communication forum for administering programs at the local level. We are encouraging FSA, NRCS, RD and all other agencies to work together in a spirit of cooperation to work with the SFACs to achieve the optimum network of local offices, staffing, training and technology.

USDA is committed to delivering farm program services through the Service Center model and is exploring all "shared space" opportunities where multiple USDA agencies can share space, supplies, mailroom, printing, conference room, common computer facilities, and basic office equipment.

USDA is committed to a continued dialogue with State and congressional leaders to discuss how best to modernize the FSA county office system and the necessary steps required to improve its information technology (IT) infrastructure. The ultimate goal of this process is to increase the effectiveness of FSA's local offices by upgrading equipment, investing in technology and providing personnel with critical training. We are committed to working with our partners to ensure that America's farmers and ranchers continue to receive excellent service long into the future.

Question. Why hasn't USDA approached this as a Service Center issue rather than a decision by just one of USDA's agencies?

Answer. Each USDA agency is faced with individual resource concerns as well as infrastructure problems. Although many of our customers are the same, each agency also has distinctly different clientele. As you note, the Service Center Agencies already maintain different office structures. For example, in your State of Iowa, Rural Development maintains a network of 10 area offices while FSA maintains a presence in all 99 counties of the State.

However, USDA is committed to delivering farm program services through the Service Center model and is exploring all "shared space" opportunities where multiple USDA agencies can share space, supplies, mailroom, printing, conference room, common computer facilities, and basic office equipment.

Question. How is the Department coordinating the multiple mission areas of local Service Centers?

Answer. State Food and Agriculture Councils (SFACs) are the primary vehicles for administering programs at the local level. SFACs provide a policy-level, cross-agency, decision-making and communication forum to achieve USDA's goals and objectives.

Furthermore, the Farm Service Agency (FSA) State Executive Directors (SEDs) are currently conducting local-level reviews of the efficiency and effectiveness of FSA offices in each State. The SEDs and State committees are forming review committees to better identify what the optimum network of FSA facilities, staffing, training and technology should be for each State within existing budgetary resources and staffing ceilings. Each SED is also exploring potential joint-effort opportunities with the Natural Resources Conservation Service and other USDA agencies.

COMMON COMPUTING ENVIRONMENT

Question. The objective of the Service Center Modernization Initiative is to create an environment of one-stop quality service for customers of the Farm Service Agency, the Natural Resources Conservation Service, and the Rural Development agencies. The Common Computing Environment (CCE) is intended to enable the 3 agencies to share information technology to improve customer service. Since fiscal year 1996, USDA has been planning and deploying an integrated information system to replace several old systems in Service Center Agencies that could not share data. In March 2000, the Office of Chief Information Officer was given direct management responsibility for the CCE.

Given that this effort has been underway for 10 years, has USDA made sufficient progress in reaching the objective number of shared information technology and ability to share and transfer data?

Answer. USDA has made significant progress in reaching the shared information technology objectives. The shared technology platform, the Common Computing Environment (CCE), is in place. The platform allows USDA to maintain one standardized environment for use by the Service Center Agencies (SCAs). The platform is the foundation for on-going efforts to modernize individual SCA systems and business processes. Despite the fact that full modernization has yet to be achieved, the platform has provided several administrative and technological benefits. Examples of the benefits have been provided.

[The information follows:]

Common Administrative Functions

Common computer technology on each of 50,000 agency and contributing partner desks, including shared software;

Shared networks, making higher speed connectivity affordable for the SCAs; and
Common IT security with the capability to manage from a single operation nationwide.

Centralized Computing Technology

Shared Storage Area Network (SAN) technology (5 locations) for tabular and geospatial data and backup/disaster recovery (full redundancy);

Common eAuthentication portal for user validation in the SCAs; and

Web Farm Technology (consolidated IT locations) developed and deployed to support Web access for employees and customers.

Telecommunications Architecture and Operations

Maintenance for phones and network routers and upgrades to data network and technology to meet future demands; and

Transition to the Departments Universal Telecommunications Network (UTN)—component of the USDA Enterprise Architecture in fiscal year 2006.

USDA Data Center

Data acquisition for Geographic Information Systems (GIS)—examples: Common Land Use (CLU) data for FSA, Soils data for NRCS; and

Data acquisition for aerial/high altitude imagery for mapping and compliance review—example: NAIP photography.

Question. How has the cost of the common computing environment been allocated among program areas?

Answer. The cost of the Common Computing Environment (CCE) is allocated across the three Service Center Agencies. A formula based on the number of computers an agency has connected to the CCE network was derived for the allocation of \$19,538,000 for base infrastructure. For fiscal year 2006, FSA has 40 percent of the computers, NRCS has 39 percent, and RD has 21 percent. Agency-specific and interagency funds account for the remainder of the CCE costs. These funds are: \$73,260,000 (FSA-specific), \$11,025,000 (NRCS-specific), \$3,960,000 (RD-specific), and \$1,188,000 (Interagency eGovernment).

Question. Is there any evidence that producers have begun to embrace the web-based system of program delivery?

Answer. The Service Center Agencies (SCAs) have begun to see increased producer interest in Web-based program delivery. Examples of this interest have been provided.

[The information follows:]

As of March 1, 2006, over 32,000 producers have obtained an eAuthentication Level 2 ID. This credential is required to access, sign, and electronically submit loan applications and to review the combined customer statement that uses data from each of the SCAs.

For the 2005 crop year, Service Centers used the Web-based Electronic Loan Deficiency Payment (eLDP) system to process about 87 percent of the LDPs. As of March 23, 2006, over 1.287 million applications have been processed, resulting in the payment of over \$4.258 billion. Of these, 16,630 eLDP applications were submitted directly from producers resulting in the payment of \$75.9 million.

Nearly 5,800 producers self-enrolled for the Electronic Direct and Counter Cyclical Payment Program (eDCP) for the 2005 crop year. As of March 21, 2006, FSA has enrolled over 1.35 million contracts for the 2006 crop year with nearly 10,000 producers enrolling electronically.

Over 1,700 FSA customers regularly conduct business via the eForms Web portal. Electronic forms submission has grown from 54 in fiscal year 2002 to 2,965 in fiscal year 2005.

The NRCS Soil Data Mart is averaging 12,000 downloaded soil surveys and 17,800 online reports viewed per month. In addition, about 1,400 users per day are using the Web Soil Survey, saving staff time at the Service Centers.

CROP INSURANCE

Question. The Group Risk Insurance Plan (GRIP) has grown by leaps and bounds over the past 2 years because of the perception held by farmers that they have a better chance of collecting an indemnity with a GRIP policy than a standard yield or revenue product. Many critics of GRIP claim that the product, in its present form, does not work like insurance but like a lottery. They allege that, under this pro-

gram, a farmer could experience a significant loss but not be due an indemnity payment. The exact opposite scenario could also be true—the policy could pay farmers an indemnity even though they have a bumper crop. I am told that these situations have already occurred.

Has RMA looked into the question of how common these overpayments or underpayments relative to actual crop losses on a specific farm actually are, and if so, what has the Agency found?

Answer. The Group Risk Income Protection (GRIP) plan of insurance, as with Revenue Assurance (RA) and Crop Revenue Coverage (CRC), is designed to protect growers against an unexpected decline in revenue, not merely against a yield shortfall. GRIP indemnities are triggered by the declining value of the harvest not the quantity harvested. This is important because indemnities can be triggered by large price declines even as the producer harvests a bumper crop. Likewise, a producer could have significantly reduced yields but not receive an indemnity if a large price increase moderates the loss of revenue.

RMA has not specifically studied the performance of the GRIP plan of insurance; however, the agency contracted for an outside study of a related product, the Group Risk Protection (GRP) program. This review addressed the question about GRP's effectiveness in reducing a grower's risk. The results are relevant for GRIP because it uses the same yield data for determining guarantees and indemnities. The external review found that:

—GRP, on average, provides substantial risk reduction to growers.

—GRP tends to be more effective where individual yields are more homogenous across the county.

—GRP tends to be more effective in the major production regions.

Question. Could the problem be addressed by re-rating the policies or acquiring more accurate information about county-level yields?

Answer. The potential for a grower to receive an indemnity when he or she did not suffer a loss, or vice-versa, is inherent to a group based policy. This cannot be changed by re-rating. However, accurate information about county level yields is important to the performance of GRP and GRIP. Consequently, GRP and GRIP is limited to those counties with at least 30 years of NASS yield history and a minimum threshold for number of growers. NASS county yield estimates are likely to be the most accurate in these counties.

To ensure that the GRIP program is functioning as intended, an outside review will be conducted during this year.

Question. Should USDA or Congress consider revoking the authority to offer this type of insurance coverage?

Answer. No, the authority to offer group products should not be revoked. Group-based coverage offers a reasonable alternative to the individual-based policies. In some cases, such as for pasture and rangeland, group coverage is the only viable method for offering meaningful crop insurance. Many growers find that group-based products provide effective risk management protection at a significant cost savings relative to individual plans of insurance.

Question. In both 2005 and 2006, the President's budget proposed to cut funds for the Federal crop insurance program to the tune of \$130 million annually, cutting both to the premium subsidies provided to farmers who buy crop insurance and payments to the private companies that deliver crop insurance to farmers.

Has USDA or any other government agency ever conducted an analysis of the effect on the crop insurance program were those cuts to be implemented?

Answer. Yes, the administration's 2007 budget proposal would link the purchase of crop insurance to the participation in farm programs, such as the direct and counter-cyclical payment programs. This proposal would require farm program participants to purchase crop insurance protection for 50 percent, or higher, of their expected market value or lose their farm program benefits. Currently participation in crop insurance is voluntary; however, producers are encouraged to participate through premium subsidies, which currently average about 59 percent of the total premium. By linking crop insurance to other farm programs, we anticipate that an estimated 20 million additional acres would be brought into the crop insurance program. We also anticipate that insurance companies would benefit from this feature via increased business and potential underwriting gains. I will provide additional details.

[The information follows:]

To offset the increased costs stemming from the increased crop insurance program participation, several proposals are made for garnering savings. One proposal is to reduce premium subsidies by 5 percentage points for coverage levels of 70 percent or below and 2 percentage points for coverage levels of 75 percent or higher. The

primary impact of this feature falls on producers who would be required to pay a larger share of the premium. It is expected that a small number of producers would move to a lower level of coverage to offset the higher costs. Another change being proposed is to reduce the delivery expense reimbursement rate by 2 percentage points for all policies above the CAT level of coverage. The proposal would also adjust the administrative fees required to obtain CAT coverage to make the fee more equitable between small and large producers. Lastly, the proposal would increase net book quota share to 22 percent (from the current 5 percent). This proposal would require the participating companies to "reinsure" 22 percent of their retained premium with the Federal Government rather than with commercial reinsurers. As an offset, the companies would receive a 2 percent ceding commission. In recent years, the companies have been retaining about 80 percent of the premium, for which they received almost \$3.6 billion in aggregate underwriting gains between 1996 and 2005. Over this period, the companies have sustained an underwriting loss in only 1 year (2002), and that underwriting loss was less than \$45 million. In 2005 alone, the companies are expected to receive an underwriting gain of approximately \$900 million. Conversely, the Federal Government has experienced underwriting losses of about \$1.6 billion over this period on the remaining 20 percent of business the companies have ceded back to USDA.

Question. Has any outside consultant been hired to conduct such an analysis?

Answer. RMA has not contracted with any outside consultants for a study of the potential impacts of the proposed program changes.

Question. If there is such an analysis, I would like to be provided a copy of it. If no such analysis has been conducted, how does USDA know that these cuts would not be deleterious to the crop insurance program?

Answer. The proposed reductions in premium subsidies to producers and payments to companies are relatively small. The anticipated cost savings are shared equitably among producers and companies and are necessary to offset the additional costs of increased participation in an era of ever-tightening budgets. For purposes of the proposal, the linkage requirement was assumed to increase total acreage in the Federal crop insurance program by an estimated 20 million acres, for a participation rate of about 84 percent. This is essentially the same level of participation achieved in 1995. However, the structure of the current farm program is substantially different from that which existed in 1995, in particular because of the availability of direct payments. It is likely that the availability of direct payments could result in participation that is somewhat greater than that assumed and experienced with the previous linkage effort.

If enacted, the administration's proposal should result in a substantial increase in total premium volume due to (1) CAT policyholders moving to a buy-up level of coverage, and (2) the addition of an estimated 20 million currently uninsured acres to the program. With this increase in premium volume, companies should experience greater economies of scale, thereby lowering their per-policy costs of delivering the program. At the same time, delivery expense reimbursements on the larger premium volume will offset much of the impact of the reduction in the reimbursement rate. Similarly, larger overall underwriting gains (on the higher premium volume) will offset much of the increase in the net book quota share. Further, if more than 20 million acres are added to the program, it is possible that total payments to companies could in fact increase under this proposal.

TRADE

Question. Last year, the U.S. agricultural trade surplus (exports minus imports) was only \$3.5 billion, the lowest figure since 1959. However, the President's fiscal 2007 budget proposes to cut the main USDA trade promotion program, the Market Access Program (MAP), by 50 percent from its Farm Bill level.

In light of the disappearing trade surplus, how can you justify such a cut?

Answer. The proposal to limit funding for the Market Access Program in 2007 reflects the administration's efforts to reduce the Federal deficit. Reducing the deficit is a key component of the President's economic plan and will help to strengthen the economy and create more jobs. Farmers, ranchers, and other residents of rural America understand the importance of a healthy economy, which raises incomes and increases demand for their products. This and other deficit reduction measures will contribute to a more prosperous future for our citizens.

It should be noted that, even if the program is limited to \$100 million in 2007, that level is still higher than the \$90 million program level that was authorized for MAP prior to the last Farm Bill. Also, limiting the program will result in better targeting of the assistance to those products and organizations that have the greatest need for it and can use it most effectively.

With regard to the balance of trade, U.S. agricultural exports are expected to reach a record high of \$64.5 billion in 2006 and have grown 22 percent since 2001. During the same period, agricultural imports have also grown. However, import growth over the past decade has been in processed foods and beverages, not farm products. As such, a lower agricultural trade surplus does not signal reduced export competitiveness of the farm sector, but rather American consumer preference for a wide variety of foods and vegetables, including those from foreign suppliers.

Question. If that proposed cut to MAP were to be adopted by Congress, how would USDA plan to implement it by cutting equally from all U.S. cooperators in MAP, or by dropping some participants from the program?

Answer. USDA would not be required to implement any changes to the current funding allocation process if the proposed limitation on MAP funds were adopted by Congress. MAP funds are allocated to program applicants using a competitive process involving quantitative, performance-based criteria that are published in the Federal Register each year. Changes in program participation would reflect the results of that competitive process and cannot be predicted accurately in advance.

FOOD AID

Question. If the President's proposal to zero out funding for the Public Law 480 Title I concessional loan program were to be enacted, that would mean that a portion of those funds are no longer available to transfer to the Food for Progress program.

For each of the past 5 years, how much money has been transferred from Title I to the Food for Progress program?

Answer. We will submit for the record a table that provides the amount of annual Public Law 480 Title I funding that was allocated to Food for Progress programming during each of the past 5 years.

[The information follows:]

Fiscal year	Millions of dollars
2001	77.7
2002 .....	.....
2003	88.6
2004	86.3
2005	67.9

Question. What would the loss of those funds mean in terms of lost or cut-back programs on the ground in developing countries, particularly in terms of numbers of targeted recipients?

Answer. The impact of the reduction in Title I funding for Food for Progress programming would be mixed. USDA would need to reduce the number of Food for Progress programs by 5-10 projects. Up to 50,000 beneficiaries could lose the benefits of the agricultural development projects. However, the increase in funding proposed for Public Law 480 Title II would offset that reduction. The additional funding for Title II would increase the number of beneficiaries under that program, who suffer from critical food aid needs. The additional recipients under the Title II program would likely exceed 50,000 in number and thereby fully offset the reduced number under Title I-funded Food for Progress.

AVIAN INFLUENZA

Question. The Department of Agriculture (USDA) has requested a total of \$82 million to prepare for and prevent outbreaks of avian influenza in the United States. These resources include various domestic activities, such as wildlife surveillance, diagnostics, and emergency preparedness. I am concerned about providing adequate support and resources to State and local entities, such as State departments of agriculture and animal health care workers, to be used to prepare for a potential large scale avian influenza outbreak.

What is the total amount of funds from USDA that will go to States to plan and prepare for an avian influenza outbreak?

Answer. Currently, APHIS is working with other Federal agencies, States, and industry to prevent and control H5 and H7 avian influenza (AI) in U.S. commercial broilers, layers and turkeys, their respective breeders, and the live bird marketing system. Of the amount requested in the low-pathogenicity avian influenza line item in the APHIS fiscal year 2007 budget, approximately \$8.1 million has been set aside for cooperative agreements with the States to support H5 and H7 AI surveillance

activities. Of the amount requested in the high-pathogenicity avian influenza line item in fiscal year 2007, APHIS has set aside approximately \$9.2 million for cooperative agreements with the States to further enhance our AI surveillance activities.

Question. Will some of the funding for avian flu be available for interstate coordination during an avian flu outbreak which would include State officials and poultry producers?

Answer. The high-pathogenicity avian influenza (HPAI) line item request does not include funding for an avian influenza outbreak. The HPAI program is for avian influenza preparedness. In the event of an outbreak, we would work closely with State officials.

FOOD SAFETY

Question. The Food Safety and Inspection Service (FSIS) recently announced an initiative to reduce Salmonella levels in poultry. However, USDA currently does not have the authority to enforce Salmonella performance standards nor does it have authority to require recalls of contaminated meat and poultry.

Will USDA implement deterrents or incentives for industry to make lowering Salmonella levels in poultry a priority? If not, how will USDA require industry to decrease Salmonella levels decrease?

Answer. USDA's Salmonella initiative does provide incentives to industry to improve Salmonella controls.

Under the initiative, FSIS will provide the results of its Salmonella performance standard testing to establishments on a sample-by-sample basis as soon as they become available. The more rapid disclosure of testing results under the initiative will allow establishments to identify promptly any need for improved process controls in slaughter or dressing operations and respond effectively.

In addition, FSIS will post quarterly nationwide data for Salmonella on its Web site, as compared to the current practice of posting annually; conduct follow-up sampling sets as needed; and provide new compliance guidelines for the poultry industry. If a facility does not meet the performance standards on two consecutive sets, a food safety assessment will be conducted. Categorization of establishments based on Salmonella positive samples will allow the Agency to pursue a comprehensive strategy for combating the pathogen and provide the industry incentives to control the prevalence of Salmonella.

After that year of review, FSIS will reassess its policy. FSIS will consider whether there are further actions that should be taken to ensure that establishments improve their control of Salmonella and further enhance public health protection. For example, FSIS would consider actions that would provide an incentive to industry to improve controls for Salmonella, such as posting on the Agency Web site the completed Salmonella sample sets for each establishment. FSIS would consider allowing establishments producing product classes with superior performance to conduct pilot studies testing whether line speeds could be increased above the current regulatory limits.

RESOURCE, CONSERVATION, AND DEVELOPMENT PROGRAM

Question. The President's budget would cut the Resource Conservation and Development Program budget in half to \$26 million. This cut is done by eliminating over 225 coordinator positions and requiring the remaining 150 coordinators to serve multiple RC&D areas. In Iowa, this program has had widespread benefits in achieving such important activities as reducing erosion in the Loess Hills, installing dry hydrants for rural firefighters, and providing companies with seed money to start up rural companies that create jobs for rural communities.

Why did the President's budget target this program which involves local leaders at the grassroots to solve critical needs for rural communities and which has leveraged large additional investments beyond the modest investment from the Federal Government?

Answer. The administration recognizes that the RC&D coordinators and councils play an important role in protecting the environment in a way that improves the local economy and living standards. However, the Department of Agriculture, like every Federal agency, must share in the government-wide effort to control Federal spending. The RC&D program received a "Results Not Demonstrated" evaluation in the Administration's Program Assessment Rating Tool results last year and as a result, the administration is proposing program streamlining and cost-cutting measures. The President's fiscal year 2007 budget proposal will save \$25 million by reducing the number of coordinator positions while maintaining the current number of authorized RC&D Areas nationwide.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

RESEARCH BUDGET

Question. In your testimony this morning, you said “reducing the deficit is a critical part of the President’s economic plan—Farmers, ranchers, and rural citizens know the deficit and burden of debt have a profound impact on the economy and the ability of future generations to participate in agriculture.”

I agree with you. That’s why I’m deeply disappointed that the administration has chosen to support tax cuts for the wealthiest of Americans over agricultural research and programs that benefit America’s family farmers. The administration proposes to cut USDA discretionary spending by 6.5 percent over last year’s funding levels. And last year’s funding levels were themselves \$500 million lower than the year before.

In the past few weeks, I have met with dozens of farmers, ranchers, researchers, and community leaders who depend on USDA’s research and programs and who believe agricultural research is an investment in the future of our farm economy. They ask me: “How does the President expect us to get by without this research?”

So I would ask you that same question: how does USDA expect America’s farm economy to remain competitive in the face of these deep cuts in vitally important agricultural research?

Answer. Research is necessary for the farm economy to remain competitive and a vital part of the American economy. The USDA recognizes that a strong economy based on sound Federal investments and reduced public debt is also vital to the American farm economy. In this light, the USDA has presented budget requests that focus on the highest priority issues and greatest opportunities. We are proposing new research to protect crops and livestock so that the United States will be a reliable trading partner and a competitive producer of food. We have proposed new animal protection research on the vexing problem of bovine spongiform encephalopathies and other transmissible spongiform encephalopathies. We are supporting new research to greatly enhance the production of bioenergy from cellulosic materials by modifying cell walls of plants. We propose to address the national crisis of obesity through new research. In these financially challenging times, we plan to pay for these initiatives by having focused and efficient research programs that address high priority needs.

DISASTER ASSISTANCE

Question. In your testimony today, you said that “USDA has made available \$2.8 billion to assist those impacted by the hurricanes, of which \$1.2 billion will be made available to agricultural producers through various programs . . . Total USDA aid to hurricane disaster victims comes to more than \$4.5 billion.”

I support emergency relief for those in the Gulf States who were hit by Hurricanes Katrina and Rita. When people fall on tough times, we have an obligation to help them. But what I do not support picking and choosing which producers who suffered a weather-related disaster will get help, and which will not.

North Dakota had over 1 million prevented plant acres last year, due to excessive moisture. Parts of Bottineau County along the Canadian border received one-third their annual rainfall in just 1 day. Every county in North Dakota has been named a Primary or Contiguous Disaster Area. But there has been no support from this administration for a disaster assistance package that would help those producers.

USDA’s own prediction is that net farm income will drop nearly 25 percent this year because of record high energy costs. I think that is optimistic. North Dakota State University estimates that average farm income in my State will fall 88 percent in 2006.

Outside North Dakota, farmers and ranchers in the Midwest experienced one of their worst droughts in decades in 2005. Last year, Illinois experienced its third-driest year since records first started being kept in 1895. Parts of Missouri, Iowa, Wisconsin, Indiana, and Arkansas were nearly as bad. USDA’s own estimate last summer was that agriculture losses from Hurricane Katrina would be \$900 million, but that losses from drought will be over \$2 billion.

My office gets phone calls every day from producers who are barely hanging on. They are meeting with their banker to see if they can squeeze out another year on the farm, or if they will have to abandon the farming lifestyle and the farm they grew up with. These farmers who call me do not understand why Congress has not acted to help them. I don’t understand, either.

My question to you is, do you support an agricultural disaster package for farmers and ranchers outside of the Gulf Coast? If not, why not?

Answer. This administration has been, and continues to be, a strong supporter of the Federal crop insurance program. Crop insurance should be our first line of defense against the financial impact of natural disasters. Farmers and rancher should be encouraged to protect themselves through the purchase of crop insurance rather than expecting ad hoc disaster assistance from the Federal Government.

Nation-wide, 2005 crop losses were not as severe as originally expected. The loss ratio for crop insurance currently stands at about 0.54, meaning that producers have received 54 cents in indemnities for each dollar of premium. This is a historically low level which reflects stronger than expected yields and prices.

Furthermore, we would note that the hurricane damage in the Gulf Coast differs markedly from the modest production losses sustained nation-wide. Gulf Coast producers lost productive capacity through the destruction of poultry houses, nurseries, and green houses and environmental degradation of farm lands. The disaster assistance provided to the Gulf States reflects this and is largely intended to restore the productive capacity of this region.

VALUE-ADDED PRODUCER GRANTS

Question. The 2002 Farm Bill authorized the Value-Added Producer Grant Program to receive \$40 million in mandatory spending annually for the life of the farm bill. In fiscal year 2004 and 2005, the program request and the final appropriations was \$15 million, a cut of roughly 60 percent each year. The USDA request for fiscal year 2006 was again \$15 million, but in the final appropriations bill we were able to increase that amount to \$20 million, still just half of the mandated farm bill amount, but moving in the right direction.

What is USDA doing to ensure that this program is administered in a manner consistent with Congressional intent expressed in the manager's report language in the Farm Bill, which states that the program should: fund a broad diversity of projects, projects likely to increase the profitability and viability of small and medium-sized farms and ranches, project's likely to create self-employment opportunities in farming and ranching, and project likely to contribute to conserving and enhancing the quality of land, water and other natural resources?

Answer. USDA published regulations for the Value-Added Producer Grant program in 2004 and publishes an annual notice soliciting applications. These documents provide detailed information on how the program is administered, including how applications are processed and scored. Lists of grant recipients and brief descriptions of their projects are available on-line at the USDA Rural Development website. The descriptions demonstrate that the program has funded projects with a wide variety of agricultural commodities combined with innovative ways to add value. In 2004, USDA Rural Development put program performance measures into place, and preliminary data on these measures is now being reported and collected. This data indicates that many grant recipients have experienced increased revenue and an expanded customer base for their value-added products, which is consistent with the Congressional intent that is expressed in the Conference Report on the 2002 Farm Bill.

Question. Over the life of the existence of the VAPG program, how many total project proposals has USDA received?

Answer. The Value-Added Producer Grant program was initially authorized by the Agriculture Risk Protection Act of 2000. Since this authorization, there have been 2,919 applications between 2001 and 2005.

Question. What was the total value of requested funds? Of these, how many proposals were funded, and what were the actual funding amounts?

Answer. The total value of funds requested in the 2,919 applications is \$363,439,756. A total of 756 applications received \$116,272,496 in funding.

NATIONAL VETERINARY MEDICAL SERVICES ACT

Question. Many rural areas of this country face a severe shortage of veterinarians. I understand that there are one-half as many veterinarians available to respond in the event of an animal disease outbreak as there were 20 years ago. The National Veterinary Medical Service Act would help solve this shortage by providing loan repayments to veterinarians who agree to practice in areas with a serious veterinary shortage. Why is the National Veterinary Medical Services Act not a functioning program within your department despite the appropriation it received for fiscal year 2006?

What steps are necessary to begin this program?

Answer. USDA is exploring potential financial management strategies both within the Department and in collaboration with other Federal agencies in order to effectively run a loan repayment program. To evaluate these and other programmatic

issues presented by the National Veterinary Medical Services Act, CSREES has constituted the National Veterinary Medical Services Act working group to develop potential program management strategies. The working group has met on four occasions and is exploring alternative strategies for managing National Veterinary Medical Services Act. We are working to ensure a well thought out program plan which includes collaborations with veterinary schools and other stakeholders to develop consensus regarding the candidate eligibility requirements, and metrics to support prioritized and weighted needs within the veterinary need areas identified within the Act. A draft program management proposal is presently being reviewed.

Question. How long do you anticipate it will take to begin this program?

Answer. CSREES anticipates that the processes required to begin this program will be completed in approximately 18 months.

APHIS BLACKBIRD CONTROL

Question. Various species of blackbirds cause an estimated \$200 million in direct agricultural damage to a host of crops, including sunflower in my State of ND. Many urban areas and airports have serious problems as well.

Please describe efforts in the Department to deal with this increasingly serious problem of what appears to be an accelerating population.

Answer. We are undertaking a variety of actions to deal with blackbird damages. Scientists at APHIS' National Wildlife Research Center (NWRC) are studying ways to refine damage abatement methods and develop new methods to reduce blackbird damage to sunflower crops in the northern Great Plains. Of note, NWRC discovered two promising chemical compounds that might discourage blackbirds from feeding on sunflower. APHIS also conducts an annual cattail management program in North Dakota and South Dakota to disperse large concentrations of blackbirds from sunflower production areas. In addition, APHIS helps farmers, homeowners, and municipalities nationwide with blackbird-related problems. The agency develops site-specific management plans for airports to address several wildlife hazard issues, including those associated with blackbirds.

Question. Damage to ripening sunflower in the Dakotas and Minnesota is as high as \$20 million annually. Through this Subcommittee, I have been successful in adding funding to enhance blackbird control efforts in North Dakota. Yet APHIS has confirmed to my office that the agency is spending less than 50 percent of what it did just 2 years ago on this problem despite my efforts to provide direct funding for this purpose.

What is the rationalization for diverting funds away from this important purpose?

Answer. In 2003, Congress earmarked \$368,000 for blackbird control plus \$240,000 to conduct an environmental impact study (EIS) and \$100,000 for cattail management activities. In 2005, Congress earmarked \$368,000 for blackbird control efforts. In addition, APHIS provided \$77,000 net in 2005 to ensure the highest level of service to sunflower producers with blackbird problems. APHIS has not diverted earmarked funds from this program and will continue to work with the National Sunflower Association to address all concerns. Earmarked funding for the continuation of these efforts in 2006 is \$377,000.

2007 FARM BILL

Question. A number of farm and commodity organizations have endorsed proposals to extend the 2002 Farm Bill until after the completion of the latest round of WTO trade negotiations.

Do you support extending the 2002 Farm Bill? If not, why not?

Answer. I believe the appropriate approach under current circumstances is to proceed to develop a new 2007 farm bill which addresses the best interests of our producers and taxpayers. An extension of the 2002 Farm Bill until after WTO negotiations are complete would put us in a more reactionary rather than proactive stance.

Question. I understand you have participated in a number of Farm Bill listening sessions all over the United States. When will you issue a final report on those listening sessions?

Answer. A series of issue papers that summarize information and comments received in the Farm Bill forums around the country have been completed and were made available on March 29, 2006. We did obtain a great deal of input and a diverse range of ideas and comments which will merit further study as we attempt to focus on what are the most critical concerns to address in fashioning a new Farm Bill. As part of that process, I have asked Dr. Keith Collins, our Chief Economist, to develop a number of documents based on various themes that will provide a straight forward, unbiased analysis. We will post these documents on the USDA website and share them with all stakeholders.

STATE MEAT INSPECTION PROGRAM

Question. The 2002 Farm Bill directed USDA to conduct a comprehensive review of State meat and poultry inspection programs and to report to Congress on these activities by the Food Safety and Inspection Service.

What is the status of this report?

Answer. USDA provided written interim updates on the Agency's review of State meat and poultry inspection programs to the House and Senate Agriculture Committees in September 2004, and again in July 2005.

On-site reviews of State Meat and Poultry Inspection programs have been completed for 20 of the 28 States. Fourteen of those States have been determined "at least equal to" the Federal inspection program, with Wyoming and Utah currently on deferred status. On February 7, 2006, FSIS completed on-site reviews of New Mexico, North Carolina, Oklahoma, and South Carolina, but final reports for these four States have not yet been completed. The 8 remaining on-site reviews will take place in 2006. In April, on-site reviews are scheduled for Indiana, Louisiana, Maine, and West Virginia.

Question. I understand that all 28 State programs have had annual record reviews and that the majority of them have had on-site reviews. Is there a preliminary assessment on, and recommendations for, Congress on State meat and poultry inspection programs?

Answer. At this time, we have not conducted on-site reviews in 8 States. USDA will not make recommendations to Congress on State meat and poultry inspection programs until all on-site reviews have been completed and evaluated.

BEEF IMPORTS AND BSE

Question. I have heard from cattle producers in North Dakota who are concerned about USDA's approval of beef imports from Japan. As you know, the prevalence of BSE in Japan is many times greater than that in the United States.

Many U.S. consumers believe that, because Japan requires testing for BSE of all meat intended for domestic consumption, meat exported from Japan to the United States will be also tested for BSE. However, the final rule adopted by USDA does not require such testing.

How much, if any, Japanese beef coming into the United States is being tested for BSE, either by Japan or by the United States?

Answer. The final rule, published in the Federal Register on December 14, 2005, established the conditions under which certain types of beef may be imported from Japan. The regulations do not require that the boneless beef be derived from animals that were tested for BSE. It is important to note that the available tests for BSE are not appropriate as food safety indicators.

Question. Based on USDA's actions relative to importing beef from Canada, there is a presumption by the American public that meat coming from a country with a BSE-infected herd will be from younger cattle. However, USDA's final rule governing the importation of Japanese beef appears to put no such age limits on the beef imported from Japan, despite the fact that Japan restricted U.S. beef imports to cattle 20 months of age and younger. This suggests that we should have more stringent rules regarding Japanese beef coming into the United States than we currently have.

Does USDA consider it necessary to impose an age restriction on imports of Japanese beef similar to the restrictions previously placed on American beef exports to Japan?

Answer. USDA did not include an age restriction in the import requirements for whole cuts of boneless beef from Japan. APHIS established the requirements for allowing the import of whole cuts of boneless beef from Japan based on a thorough risk analysis. BSE studies in cattle have not detected infectivity in boneless beef, which is what is eligible for import, regardless of the age of the animal. For these reasons, we consider whole cuts of boneless beef to be inherently low-risk for BSE and determined that they can be safely traded provided that measures are taken to prevent cross-contamination during processing.

Question. What is USDA's position on allowing private testing of beef for BSE by U.S. producers and processors?

Answer. Given the consequences and governmental actions that can result from BSE testing of animals, USDA believes that such testing is an inherently governmental function that must be conducted by Federal and State laboratories. We would also like to clarify that BSE tests are not conducted on cuts of beef. Rather, the tests are performed on brain tissue taken from dead or slaughtered cattle to diagnose the presence of BSE in that animal.

Question. Why are the BSE importation rules not being changed to better reflect the current status of nations the U.S. imports beef from?

Answer. The APHIS regulations concerning BSE-related restrictions have been changed over the past year to reflect both the status of certain countries regarding BSE and the currently accepted scientific guidelines for appropriate risk mitigations on various products. Further, APHIS regulations are consistent with international guidelines on BSE.

GIPSA

Question. There have been very disturbing reports about the failure of USDA's Grain Inspection, Packers, and Stockyards Administration to properly investigate claims of wrongdoing.

Please tell me the steps you are taking to restore rural America's confidence in GIPSA and how you intend to make sure this agency fulfills its proper oversight role.

Answer. GIPSA intends to implement all recommendations in the OIG report. GIPSA has already issued policy directives in response to several of the recommendations and is initiating a review process to ensure that the directives are being followed and implemented properly.

However, GIPSA has gone further than just the OIG recommendations. For example, the agency has requested a full scale organizational review to provide recommendations on how to improve the agency's operational effectiveness. Also, the new GIPSA Administrator recently ordered an Office of Personnel Management-administered Organizational Assessment Survey. The survey gives employees an anonymous opportunity to let the Administrator know what they think about the organization on a range of topics. Results will be used to make decisions about work environment improvements in the program and enhance its organizational effectiveness. The Administrator is also working to develop an organizational culture to ensure at all levels a recommitment to OIG and GAO recommendations and to redirect resources to achieve mission-critical activities.

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

DISASTER ASSISTANCE

Question. My first question pertains to the budget's assumption that there will be no ad hoc disaster relief spending for farmers this year. On January 26, 2006, your office announced that it would distribute \$1.2 billion to producers that sustained losses due to Hurricane Katrina. This spending will go to producers in Mississippi, Florida, Louisiana, and other Gulf Coast States. However, as you know, there were natural disasters in many parts of the country that hurt producers significantly. In my home State of Illinois and many other parts of the Corn Belt, producers experienced one of the worst droughts since modern records have been kept. Almost every county in Illinois was declared a primary disaster area. According to crop indemnity statistics, Illinois yields were down significantly and indemnities rose.

I would like an answer as to why emergency funds have not been directed to producers in my State, and I would like the relevant branch of the USDA to provide an estimate of the amount of losses sustained State-by-State due to natural disasters this past year.

Answer. Yields in Illinois were down in 2005 when compared to the record production of 2004. However, when compared to historical averages, crop losses in Illinois were not as severe as expected. Current crop insurance data indicates that the loss ratio for Illinois is about 0.50. By contrast, the loss ratio in Florida stands at nearly 3.0, the highest in the Nation. The difference in losses becomes even more apparent when you consider that nearly 85 percent of Illinois crops are insured at a 70 percent or higher coverage level meaning that the majority of producers needed a loss of just 10 to 30 percent to qualify for an indemnity. By contrast, less than 18 percent of Florida crops are insured at such high coverage levels. In fact, over 63 percent of Florida crops are insured at the catastrophic level meaning they needed to sustain losses in excess of 50 percent to qualify for an indemnity.

At the present time we do not have a break-down of losses sustained State-by-State due to natural disasters. However, the Risk Management Agency does have a break-down of losses sustained State-by-State due to all causes of loss; which may include losses stemming from price declines.

[The information follows:]

FEDERAL CROP INSURANCE CORPORATION CROP YEAR STATISTICS FOR 2005 AS OF 3/20/2006
[Nationwide Summary—By State]

State	Policies Sold	Policies Earning Premium	Policies Indemnified	Net Acres Insured	Liabilities	Total Premium	Premium Subsidy	Indemnity	Loss Ratio
ALABAMA	13,358	6,175	1,275	1,037,905	266,638,428	30,294,966	18,286,761	14,719,917	.49
ALASKA	37	22	.....	5,864	419,584	53,432	45,525	.....	.....
ARIZONA	2,109	973	72	381,969	150,917,945	8,497,319	5,256,239	1,877,860	.22
ARKANSAS	33,456	17,706	3,730	4,564,203	489,344,042	45,621,410	33,525,853	27,975,089	.61
CALIFORNIA	32,945	24,939	3,140	3,817,389	3,322,510,070	169,072,162	120,901,931	79,763,804	.47
COLORADO	36,022	17,140	10,117	3,928,423	579,414,985	84,784,549	48,770,711	96,305,825	1.14
CONNECTICUT	411	296	40	22,152	70,382,422	3,517,559	2,376,180	622,699	.18
DELAWARE	1,629	1,170	426	263,145	45,150,127	4,576,175	2,967,234	2,695,938	.59
FLORIDA	17,886	14,491	3,612	1,373,469	2,978,645,459	106,546,097	77,499,714	310,683,797	2.92
GEORGIA	34,796	14,321	3,467	2,449,745	727,871,287	78,312,292	48,135,009	56,789,355	.73
HAWAII	140	138	5	26,506	77,903,217	913,243	625,013	387,341	.42
IDAHO	11,150	6,321	1,426	1,849,657	536,046,499	42,134,361	24,522,855	23,595,390	.56
ILLINOIS	135,200	110,759	23,902	15,916,643	3,939,276,514	277,222,446	149,641,601	137,614,012	.50
INDIANA	51,866	41,996	6,900	7,703,368	2,002,619,812	163,300,587	87,078,250	25,001,170	.15
IOWA	151,329	127,408	12,734	19,909,552	4,513,906,738	310,561,169	166,880,925	67,947,493	.22
KANSAS	237,020	123,906	33,215	16,403,797	1,894,187,392	261,253,464	150,721,768	117,836,089	.45
KENTUCKY	21,908	12,410	2,242	1,848,103	399,460,535	34,702,791	20,523,436	16,478,773	.47
LOUISIANA	24,268	9,471	1,739	2,645,190	386,339,172	33,641,733	23,162,354	16,250,621	.48
MAINE	670	518	160	100,357	60,150,179	5,087,398	3,530,434	5,573,387	1.10
MARYLAND	5,563	4,179	804	750,124	175,680,023	15,024,802	9,883,561	4,266,926	.28
MASSACHUSETTS	800	604	104	26,829	47,248,511	2,454,178	1,715,709	2,239,041	.91
MICHIGAN	28,560	20,759	2,815	3,571,061	923,476,088	74,022,000	44,987,976	15,860,243	.21
MINNESOTA	123,856	82,367	14,838	16,248,086	3,137,522,415	284,883,602	159,009,913	131,820,332	.46
MISSISSIPPI	16,405	7,265	1,194	3,200,937	423,650,399	37,416,582	24,606,293	16,611,379	.44
MISSOURI	76,164	46,459	13,414	7,039,822	970,677,140	111,472,976	69,187,614	74,237,351	.67
MONTANA	39,785	22,567	3,326	33,915,723	672,585,090	96,239,181	56,274,382	24,573,063	.26
NEBRASKA	159,011	95,153	21,766	14,121,474	2,726,193,994	253,899,361	141,880,921	79,564,839	.31
NEVADA	152	115	32	38,102	13,967,262	1,023,211	595,975	763,228	.75
NEW HAMPSHIRE	118	98	17	8,121	9,515,182	381,105	275,311	490,792	1.29
NEW JERSEY	1,521	1,067	129	156,939	87,457,732	3,486,846	2,854,527	1,413,404	.41
NEW MEXICO	3,615	1,763	229	551,108	80,983,767	10,635,155	6,990,003	2,430,038	.23
NEW YORK	6,329	4,340	658	714,682	233,205,271	17,854,230	12,421,731	12,031,267	.67
NORTH CAROLINA	35,045	19,037	4,783	3,101,172	906,615,258	77,458,243	46,861,372	63,726,912	.82
NORTH DAKOTA	170,987	74,758	26,596	20,393,248	2,032,938,321	308,384,516	178,545,676	222,427,856	.72

FEDERAL CROP INSURANCE CORPORATION CROP YEAR STATISTICS FOR 2005 AS OF 3/20/2006—Continued
[Nationwide Summary—By State]

State	Policies Sold	Policies Earning Premium	Policies Indemnified	Net Acres Insured	Liabilities	Total Premium	Premium Subsidy	Indemnity	Loss Ratio
OHIO	51,177	40,288	11,083	5,742,109	1,336,152,625	109,260,601	59,310,152	44,364,624	.41
OKLAHOMA	36,002	19,698	6,453	4,668,500	408,355,429	60,183,880	36,530,873	26,770,647	.44
OREGON	6,082	3,506	1,080	878,217	544,055,132	18,199,764	11,366,471	25,330,774	1.39
PENNSYLVANIA	15,281	11,410	2,383	1,117,322	249,867,340	29,841,007	19,260,202	14,811,482	.50
RHODE ISLAND	57	36	6	1,529	840,333	60,232	45,452	55,859	.93
SOUTH CAROLINA	10,142	5,404	1,312	1,057,078	273,512,449	28,391,120	17,924,781	18,181,566	.64
SOUTH DAKOTA	112,973	62,641	19,023	13,583,329	1,618,226,090	230,818,186	134,592,001	116,288,325	.50
TENNESSEE	16,646	9,217	1,179	1,865,720	651,254,289	32,535,870	22,291,662	12,693,138	.39
TEXAS	172,730	74,337	15,955	13,604,810	1,988,774,231	315,743,910	198,748,630	146,587,572	.46
UTAH	1,172	847	173	173,209	21,421,230	2,625,837	1,650,607	2,846,260	1.08
VERMONT	596	509	43	72,085	16,753,118	1,201,826	837,124	329,444	.27
VIRGINIA	12,238	6,745	2,008	970,105	271,737,055	23,357,692	14,259,115	14,251,573	.61
WASHINGTON	16,260	11,823	2,072	2,403,707	1,050,845,453	48,835,523	31,421,700	21,611,628	.44
WEST VIRGINIA	942	494	84	45,381	11,247,813	1,285,520	870,190	641,063	.50
WISCONSIN	37,485	28,708	5,471	4,053,136	857,353,335	80,504,835	47,060,824	35,885,299	.45
WYOMING	6,371	3,968	869	7,490,239	93,006,210	10,534,970	6,466,884	6,034,049	.57
Grand Total	1,970,265	1,190,322	269,101	245,811,341	44,276,302,992	3,948,109,914	2,343,189,425	2,141,258,534	.54

The issue of rural development is of serious concern to me. I just don't see how this budget demonstrates a commitment to the needs of rural America. Here's one item that jumps out at me: consolidation of Farm Service Agency (FSA) offices. I continue to be concerned that there are signals going out to State FSA directors that they will be able to shutter FSA offices.

Consolidating these offices would mean that farmers have to spend more time driving around to access the essential services provided by FSA offices, and would result in a direct decrease in these services.

FSA OFFICE CLOSURES

Question. The issue of rural development is of serious concern to me. I just don't see how this budget demonstrates a commitment to the needs of rural America. Here's one item that jumps out at me: consolidation of Farm Service Agency (FSA) offices. I continue to be concerned that there are signals going out to State FSA directors that they will be able to shutter FSA offices.

Consolidating these offices would mean that farmers have to spend more time driving around to access the essential services provided by FSA offices, and would result in a direct decrease in these services.

First, I would like to know what mechanism the Secretary proposes for State authorities to be given discretion to close FSA offices. Also, I would like the Secretary to respond in unequivocal terms that should State or Federal authorities choose to consolidate FSA offices, that Members of Congress be consulted. I would like to know what plans the Secretary has for keeping Members in the loop fully through the process.

Answer. The Department and the Farm Service Agency (FSA) is committed to meeting the needs of farmers and ranchers in the 21st Century, and wisely investing in our employees, technology and equipment will only improve customer service delivery. We are also committed to coordinating with Congress, stakeholders, local groups and customers to ensure the Agency offers the best service possible.

FSA is working with the State Executive Directors (SEDs) for each State. FSA is asking each SED to conduct an independent local-level review of the efficiency and effectiveness of FSA offices in their State. SEDs and State Committees will form a review committee to identify what the optimum network of FSA facilities, staffing, training and technology should be for your State within existing budgetary and staffing resources. Further, SEDs will explore potential joint-effort opportunities with the Natural Resources Conservation Service and other USDA agencies.

There is no comprehensive national plan or formula for identifying the optimum network of FSA offices. Each State will review its own county office system before submitting recommendations for technology upgrades, staffing, training and facilities.

As recommendations are received from each State, FSA will hold public hearings and coordinate communications efforts with area farmers, ranchers, and stakeholders. If the office closure or consolidation moves forward, FSA will notify the appropriate members of Congress, including those on the Appropriations Subcommittees.

The Department is committed to a continued dialogue with State and congressional leaders to discuss how best to modernize the FSA county office system and the necessary steps required to improve its information technology (IT) infrastructure. The ultimate goal of this process is to increase the effectiveness of FSA's local offices by upgrading equipment, investing in technology and providing personnel with critical training. Optimizing the county office structure consistent with IT modernization is absolutely essential if the Agency's tradition of excellent customer service is to be maintained.

QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

IMPORTS OF JAPANESE BEEF

Question. When Japan opened its market to U.S. exports of beef from animals under 20 months of age, the U.S. simultaneously opened up its market to a broad range of beef from Japan, including beef from animals over 30 months of age. Japan implemented its ruminant-to-ruminant feed ban in 2001, and has had more than 20 cases of Bovine Spongiform Encephalopathy (BSE).

Can you explain how the U.S. import standard for beef from Japan meets the standards of the World Organization for Animal Health (OIE) for mitigating the risk of spread of BSE?

Answer. The OIE guidelines provide for three possible BSE classifications for an exporting country: negligible risk, controlled risk, and undetermined risk, with export conditions increasingly stringent as the status of a region moves from negligible risk through controlled risk to undetermined risk. The import conditions for whole cuts of boneless beef from Japan, including the requirements for specified risk material removal and restrictions on stunning and pithing, are consistent with OIE's criteria for meat exported from controlled-risk regions.

Question. How does this import standard take into account the fact that science is still evolving regarding the question of whether or not the prions responsible for BSE infection may be found in sciatic nerve tissue and muscle cuts of meat?

Answer. APHIS recognizes that ongoing research with increasingly sensitive detection measures may find the presence of abnormal prions in different tissues. This does not negate the previous research studies nor the years of epidemiological evidence that demonstrate the lack of infectivity in muscle meat. The incidence of BSE worldwide continues to decrease, providing evidence that the established control measures are working. These control measures are based on previous research and epidemiological evidence, and demonstrate that this research has identified those tissues that contain essentially all of the relevant infectivity in cattle tissues.

Question. Does this opening to beef from a country with a feed ban since 2001 comply with USDA's earlier position that risk mitigation required the existence of a feed ban for a minimum of 7 years?

Answer. A feed ban in relation to the definition of a BSE-minimal risk region—which is not relevant to the import of boneless beef from Japan—requires that a minimal-risk region should maintain risk mitigation measures adequate to prevent widespread exposure and/or establishment of disease, including the fact that a ruminant-to-ruminant feed ban is in place and is effectively enforced. There is no time frame specified.

Question. Why did the United States agree to impose less stringent import standards for meat from a country with BSE problems than that country agreed to impose on our exports?

Answer. Japan requested that the USDA consider allowing the resumption of beef imports from Japan based on the safeguards they had implemented to prevent and control BSE. APHIS conducted a thorough risk analysis to evaluate this request, and determined that the importation of whole cuts of boneless beef could be allowed while continuing to protect the United States against the introduction of BSE.

IMPORTS FROM CANADA

Question. In January of this year, Canada confirmed the detection of another animal infected with BSE in Alberta. The animal in question was born 3 years after Canada imposed its ruminant-to-ruminant feed ban. In addition, in December of last year, USDA's Inspector General confirmed that Canadian beef inspection officials were still not enforcing certain measures required of them in order to qualify for equivalence to the U.S. inspection system, despite the fact that USDA originally identified these problems in the Canadian system as early as 2003. Yet FSIS is only now developing and implementing protocols to evaluate deficiencies in the Canadian system.

In light of these developments, is USDA considering re-evaluating its Canadian import policy?

Answer. USDA remains confident in the animal and public health measures that Canada has in place to prevent BSE, combined with existing U.S. domestic safeguards and additional safeguards outlined in the final rule recognizing Canada as a minimal-risk region for BSE.

Question. Do you feel there are any additional safeguards that may be needed in our import regulations to account for the discovery of an infected animal Canadian born after the feed ban, and the continued deficiencies in Canada's meat inspection system?

Answer. USDA feels that the safeguards currently in place are sufficient to protect public health against BSE. USDA requires that all foreign countries that export meat and poultry to the United States must have an inspection system equivalent to the one in this country. This means that all of our trading partners must meet our domestic regulatory standards, including the ban on specified risk materials (SRMs) and the prohibition of non-ambulatory disabled cattle from the human food supply.

Canada has SRM removal requirements that are virtually identical to the current U.S. regulations. The only difference is that Canada does not consider tonsils to be SRMs in cattle less than 30 months of age. However, all meat exported from Canada to the United States must have the tonsils removed, pursuant to U.S. regulations.

Question. If you don't believe any modifications in our import regulations are needed, why not?

Answer. USDA remains confident in the animal and public health measures in place in both Canada and the United States. With respect to BSE, risk mitigation is not tied to the success or failure of one individual measure. It relies on an interlocking sequence of risk mitigation measures that provide an overall measure of risk protection. The Canadian BSE risk assessment evaluated the total effect of all of these measures, and was not based on one individual measure.

COUNTRY OF ORIGIN LABELING

Question. American cattle producers often argue that one of the most important steps that could boost their competitiveness at home and abroad would be to differentiate their product to consumers as meat exclusively from animals born and raised in the United States. In fact, customers in some of our most important export markets are also demanding source verification of U.S. meat exports. Yet country of origin labeling is still not mandatory for U.S. meat products, and there is no way for consumers to distinguish whether meat packed in the United States is from U.S. animals or foreign animals.

Does USDA see mandatory country of origin labeling for meat, including information on animal origin, as a competitive advantage for U.S. producers?

Answer. Evidence from the marketplace suggests that the willingness of consumers to pay for information about the origin of their food is not high. If market premiums for country of origin information were available, there would be strong incentives for the industry supply chain to provide that information voluntarily to consumers. Since the level of voluntary labeling for country of origin of U.S. foods is minimal, the willingness of consumers to pay for the information appears to be small. That being the case, there most likely would be minimal competitive advantage for U.S. producers under a mandatory program.

Question. If export customers are demanding such information, shouldn't U.S. consumers have access to the same information about the food they eat?

Answer. Many groups, including consumers and industry associations, have expressed an interest in country of origin labeling. In general, providing more information to consumers to make informed purchase decisions is better than less or no information. If the costs of providing the additional information exceed the benefits, however, then there is no economic rationale for providing it.

Question. What can USDA do to help ensure that U.S. producers can differentiate their product in the market?

Answer. There are existing user-fee programs administered by USDA that address this issue, such as the Process Verified Program. Under this program, individuals can request that USDA verify live animal or product attributes, including the source of their animals. USDA's voluntary marketing programs are currently assisting U.S. producers in differentiating their products in domestic and international marketplaces.

RESOURCE, CONSERVATION, AND DEVELOPMENT PROGRAM

Question. I am concerned for the President's budget request for the Resource, Conservation, & Development program. RC&D leverages \$8 in my community for every \$1 the Federal Government invests. What other programs in your agency budget bring this type of return on investment to rural areas?

Answer. USDA delivers a variety of rural economic development, farm support, research, conservation, and forestry programs that collaborate closely with local communities and landowners to address their locally identified priorities. Many of these programs cost share the financial and technical assistance costs with State and local governments, and the private sector, to more cost effectively deliver benefits for local communities.

Question. It is my understanding that while we level funded RC&D that the following States lost funds in your new resource based allocations. Can you tell us what factors you used to determine the resource allocations? I note that States served by Members of this Subcommittee like Missouri, Kentucky, Kansas, California, Iowa, Illinois, and North Dakota lost funding under this process.

Answer. State RC&D allocations are now based on 19 resource concern factors which reflect the four program statute purposes of Land Conservation, Land Management, Water Management, and Community Development; and State specific factors which reflect the cost of doing business within the State. In fiscal year 2006 the resource concern factors reflected 90 percent of the allocation and State specific factors reflected 10 percent. The new approach was designed so that no State received a reduction in allocation greater than 5 percent. Additional information, in-

cluding a list of fiscal year 2006 allocation factors and weights used is provided for the record.

[The information follows:]

RC&D PROGRAM DOLLARS AVAILABLE FOR STATE ALLOCATIONS (Maximum change in allocation 5%)				
		Category Weight (%)	Factor Weight (%) in the Category	Factor Weight (%) Overall
Resource Concern Factors				
<i>Factors that relate to natural resource concerns or emerging issues across the landscape that track the NRCS approach to Soil, Water, Air, Plant, Animal, and Human (SWAPA & H)</i>				
	Land Conservation	22.5%		
1	Soil Erosion Water (Crop) (ac.)		5.0%	4.5%
2	Soil Erosion Water (Grazing) - Rangeland (ac.)		5.0%	4.5%
3	Soil Erosion Water (Grazing) - Pastureland (ac.)		5.0%	4.5%
4	Soil Erosion Water (non-ag) (ac.)		5.0%	4.5%
5	Soil Erosion Wind (ac.)		5.0%	4.5%
	Water Management	22.5%		
6	Non-Attainment Water Bodies (no.)		8.3%	7.5%
7	Non-Attainment Water Bodies - Lake (ac.)		8.3%	7.5%
8	Non-Attainment Water Bodies - Rivers (miles)		8.3%	7.5%
	Land Management	22.5%		
9	Land Conversion Pressure (%)		5.0%	4.5%
10	Wildlife Habitat (ac.)		5.0%	4.5%
11	Wetland (ac.)		5.0%	4.5%
12	Tidal Shoreline (miles)		5.0%	4.5%
13	Resource Needs Magnitude [non-Federal land] (ac.)		5.0%	4.5%
	Community Development	22.5%		
14	Poverty (%)		4.2%	3.75%
15	Target Populations (ac.)		4.2%	3.75%
16	Federally Recognized Tribes (no.)		4.2%	3.75%
17	Out Migration (%)		4.2%	3.75%
18	Unemployment (%)		4.2%	3.75%
19	Limited Resource Farmers and Ranchers (%)		4.2%	3.75%
	Total	90.0%	100.0%	90.0%
State Specific Factors				
<i>Criteria unique to each state that affects the cost of business and implementation of national objectives</i>				
	Costs of doing business	10.0%		
20	a) Average Office Rental Costs (dollars)		33.3%	3.3%
21	b) Average Travel Costs (dollars)		33.3%	3.3%
22	c) FY 06 RC&D Salary and Personnel Benefit Cost (dollars)		33.4%	3.4%
	Total	100.0%	100.0%	10.0%

This new targeted allocation approach addresses Program Assessment Rating Tool (PART) concerns about the need for targeting resources to address the highest priority needs. It uses weighted state and local-level data elements collected through the Natural Resources Inventory (NRI), National Agricultural Statistics Service (NASS), U.S. Census Bureau, Economic Research Service and other reliable and statistically sound sources to highlight the resource needs in the States. The targeted allocations reflect national NRCS priorities and tie to long-term program goals.

Question. Can you give us an update on management issues within the RC&D program including long term program goals and the status of the new POINTS database?

Answer. There are a number of improvements underway for the program that address operating deficiencies highlighted through the PART results and through the national evaluation conducted in conjunction with RC&D councils in fiscal year 2004–2005.

By the end of April, NRCS will have a new RC&D program performance reporting system, POINTS, in place that will enable more effective management of program performance and more closely link performance with budget requests. In addition, NRCS has recently developed new national long-term, outcome-oriented program performance measures and goals that meaningfully reflect the program's purpose. The new long-term performance measures, reflecting the core of activities undertaken by RC&D Councils, were developed using information provided by the National Association of RC&D Councils (NARC&DC).

NRCS is working with RC&D Councils to develop Area Plans and annual plans of work that tie more closely to the new targeted approach to addressing the highest priority needs and be more accountable for showing program performance.

NRCS is also taking steps with the National Association of RC&D Councils (NARC&DC) to increase program participation with Indian Tribes, an item of concern reported in the national program evaluation. Hands-on training is being provided to RC&D councils and coordinators on working more effectively with Tribes. In addition, a useful handbook has been developed to aid local councils in their daily interaction and outreach activities with Tribes.

Question. RC&D was originally intended to be administered by NRCS yet bring to bear the resources of all USDA programs in a community. We hear from constituents that conservation and implementation of Farm Bill programs are the priority for NRCS employees associated with the program.

What are you doing to maintain the integrity of the RC&D area planning process and ensure that in areas where rural development is a priority that council can still receive assistance from the Federal coordinator?

Answer. All program improvements being implemented for the RC&D program are designed to maintain the integrity and authorities of the program. Under long-standing NRCS policy, the RC&D Area Plan developed by each council must address all four statutory components of the program: land conservation, water management, community development and land management. Rural development activities fall within these components. The technical assistance provided through RC&D coordinators and other NRCS employees address the high priority concerns outlined in the RC&D area plans to the extent that RC&D appropriations are available.

Question. We hear that States no longer have full time coordinators and that part time program assistant positions have been eliminated in most States.

The program was level funded. How has this happened?

Answer. Despite continued increased costs relating to salaries, rent, equipment, supplies, fuel, etc., program efficiencies and more effective leveraging of Federal funds allow the program to deliver the high level of service in 2006 as in prior years.

Question. Can you detail the level of support provided to each State?

Answer. In fiscal year 2006 the following funds were provided to each State:

State	Total fiscal year 2006 allocation
Alabama	\$1,095,450
Alaska	984,616
Arizona	801,550
Arkansas	856,767
California	1,465,350
Colorado	973,733
Connecticut	274,083
Delaware	134,417
Florida	940,917
Georgia	1,343,633
Hawaii	549,694
Idaho	1,075,333
Illinois	1,221,917
Indiana	1,095,450
Iowa	1,947,467
Kansas	1,096,716
Kentucky	1,704,033
Louisiana	940,917
Maine	672,083
Maryland	403,250
Massachusetts	403,250
Michigan	940,917
Minnesota	1,075,333

State	Total fiscal year 2006 allocation
Mississippi	940,917
Missouri	1,009,897
Montana	1,075,333
Nebraska	1,460,600
Nevada	403,250
New Hampshire	268,833
New Jersey	268,833
New Mexico	979,469
New York	1,023,728
North Carolina	1,217,167
North Dakota	998,832
Ohio	1,095,450
Oklahoma	1,095,450
Oregon	672,083
Pennsylvania	1,095,450
Rhode Island	134,417
South Carolina	940,917
South Dakota	940,917
Tennessee	1,217,167
Texas	2,677,767
Utah	940,917
Vermont	268,833
Virginia	940,917
Washington	940,917
West Virginia	735,050
Wisconsin	940,917
Wyoming	672,083
Pacific Basin	280,863
Puerto Rico	403,250
Total Allocated to States	47,637,100

Question. RC&D coordinators are being pulled from their program responsibilities to implement Farm bill programs. What is the average amount of time a coordinator spends on RC&D program activities nationally?

Answer. RC&D coordinators are spending at least 75 percent of their time on RC&D program activities.

Question. Is this time charged to the TA portion of Farm bill programs?

Answer. NRCS time charges are directly connected to the benefiting program. If an RC&D Coordinator works on a Farm Bill related program their time is charged directly to those programs on a case-by-case basis. Only RC&D work is charged to the RC&D program.

Question. Anecdotal evidence indicates that RC&D councils are taking on more and more of NRCS overhead and administrative costs.

Can you provide a comparison by State of the administrative costs assessed to RC&D in proportion to other Federal programs in your agencies jurisdiction?

Answer. The comparison by State for fiscal year 2006 is provided for the record. [The information follows:]

FY 2006 Administrative Support Comparison as of March 31, 2006

STATE	NRCS Programs*													
	CO	Soils	Plann ing	WS Rehab	WS Ops	RC&D	CRP	FRPP	WHIP	EQIP	WRP	EQIP GSPC	CSP	GRP
Alabama	49.7%	9.9%	0.0%	0.4%	0.8%	5.6%	0.4%	0.1%	0.4%	20.8%	0.2%	0.2%	0.7%	0.0%
Alaska	32.8%	13.4%	4.6%		2.7%	13.0%	0.2%	0.7%	5.0%	20.6%	0.2%			
Arkansas	49.9%	5.6%			2.2%	4.3%	2.8%			20.7%	2.2%	3.5%	7.2%	
California	40.4%	7.8%	1.3%	0.0%	0.7%	3.2%		0.1%	0.5%	22.0%	2.0%	7.3%	1.5%	0.0%
Colorado	46.2%	6.2%	0.4%	0.7%	1.7%	3.1%	0.9%	0.2%	0.8%	25.8%	0.7%	4.1%	1.5%	0.1%
Connecticut	49.9%	4.9%	1.5%			5.0%		2.1%	7.6%	29.0%				
Delaware	53.0%	7.0%				2.0%	4.0%	1.0%	3.0%	30.0%				
Florida	47.1%	5.1%	0.6%		1.4%	4.6%	0.6%	0.2%	0.4%	28.6%	3.7%	1.6%	0.3%	
Georgia	58.9%	6.3%	0.5%	4.4%	0.6%	5.2%	0.4%	0.1%	0.3%	17.9%	0.7%	0.7%	1.8%	0.0%
Hawaii	42.1%	5.9%	1.1%		13.1%	6.0%	0.6%	0.7%	4.3%	16.7%	0.6%	3.3%	0.1%	0.1%
Idaho	49.5%	6.5%	0.3%		0.4%	6.4%		0.1%	0.7%	21.7%	0.5%	5.6%	2.0%	0.0%
Illinois	60.7%	5.1%			0.4%	4.9%	12.1%	0.1%	0.3%	8.9%	4.0%		3.4%	
Indiana	56.0%	7.6%		0.6%		5.8%	16.2%			7.2%	2.6%		3.0%	
Iowa	60.5%	3.8%	2.2%	0.3%	6.1%	5.5%		0.0%	0.6%	14.3%		0.1%	5.5%	0.0%
Kansas	57.3%	4.3%	0.4%		1.4%	3.1%	8.5%		0.4%	16.8%	0.5%	3.0%	3.1%	
Kentucky	60.2%	8.9%		1.2%	0.5%	7.8%	7.4%	0.2%	0.4%	12.9%	0.2%		0.2%	
Louisiana	48.2%	4.6%	0.4%	0.1%	1.8%	5.0%	2.3%		0.5%	20.1%	5.3%	0.6%		
Maine	49.6%	11.2%	0.3%		0.8%	7.6%	2.7%	0.4%	1.8%	24.9%		0.8%		
Maryland	65.0%	12.0%				3.0%		2.0%		16.0%			2.0%	
Massachusetts	38.7%	17.4%	2.5%	0.3%	1.4%	7.8%	0.2%	1.0%	6.5%	23.2%	0.5%	0.2%	0.1%	0.1%
Michigan	52.5%	7.7%				5.1%	3.6%	0.4%	0.6%	22.1%	4.1%		3.9%	
Minnesota	45.2%	7.8%	1.0%		0.9%	3.8%	14.1%		0.8%	19.8%	3.9%		2.8%	
Mississippi	43.7%	3.9%		2.0%	0.7%	3.1%	6.2%		0.8%	10.4%	1.2%	2.3%	0.3%	0.0%
Missouri	48.4%	5.0%			15.0%	2.5%	7.8%			12.9%	2.7%		5.5%	
Montana	55.8%	8.5%	0.3%		0.7%	3.3%	0.8%	0.1%	0.3%	20.8%	0.8%	2.1%	2.5%	
Nebraska	55.0%	3.5%	0.6%	2.1%		5.0%	8.0%	0.0%	0.7%	16.3%	2.4%	4.3%	2.0%	0.1%
New Hampshire	47.0%	7.5%		0.9%		5.3%		1.7%	10.0%	26.1%	1.0%			
New Jersey	60.7%	5.7%				3.5%	2.3%	2.1%	3.7%	18.6%				
New Mexico	50.0%	6.0%				8.0%				36.0%				
New York	59.4%	6.2%	0.1%	0.9%		6.0%		0.5%	0.3%	19.5%	4.6%		0.4%	
North Carolina	54.8%	9.3%			2.8%	4.3%	6.5%	0.3%	0.3%	17.9%	2.4%	0.5%	0.9%	
North Dakota	37.1%	4.1%		1.0%	2.3%	2.9%	12.3%			12.1%	0.8%		1.2%	
Ohio	53.4%	4.0%		0.2%	1.7%	4.5%	15.5%	0.3%	0.3%	15.1%	1.5%		3.5%	
Oklahoma	54.7%	4.4%		9.3%	0.7%	3.7%	2.0%	0.1%	0.4%	19.3%	1.1%	0.6%	0.5%	0.0%
Oregon	43.4%	9.5%	2.3%			2.8%	0.6%		0.5%	14.4%	2.1%	2.6%	9.0%	
Pacific Basin	70.6%	4.7%	3.7%		3.6%	9.4%				7.6%				
Pennsylvania	51.7%	4.3%		0.9%	4.3%	4.7%	18.5%	0.7%		14.2%			0.6%	
Puerto Rico	59.0%	6.0%				7.0%				27.0%		1.0%		
Rhode Island	41.6%	4.7%	0.4%			5.1%	0.4%	3.2%	14.5%	28.9%	0.6%		0.2%	0.3%
South Carolina	56.2%	4.5%	1.0%	0.6%	1.4%	7.1%	6.2%		0.7%	14.9%	4.4%		1.6%	
South Dakota	55.5%	4.6%	0.1%	0.1%	0.3%	3.4%	13.0%	0.0%	0.6%	19.9%	0.8%	0.8%	0.4%	0.1%
Tennessee	63.3%	7.0%	0.3%	1.0%	0.2%	6.5%	2.3%	0.1%	0.3%	14.6%	0.9%		0.3%	0.0%
Texas	56.5%	4.8%	0.1%	2.8%	1.1%	3.5%	1.7%	0.0%	0.3%	24.7%	0.2%	2.3%	0.5%	0.1%
Utah	25.4%	5.5%		1.5%	0.1%	4.4%		0.1%	0.4%	28.9%	0.1%	1.9%	0.8%	0.0%
Vermont	46.7%	6.7%			6.3%	4.5%	2.8%	1.3%	6.3%	24.9%			0.6%	
Virginia	59.1%	8.2%	0.6%	2.6%	3.1%	5.7%	0.8%	0.2%	0.5%	17.1%	0.3%		1.0%	0.0%
Washington	59.5%	6.3%	0.2%			4.8%		0.2%	0.7%	17.4%	2.9%	1.9%	3.0%	0.1%
West Virginia	54.0%	12.0%	1.0%	2.0%	6.0%	5.0%				14.0%				
Wisconsin	56.6%	7.7%	0.1%	0.6%		3.6%	10.2%	0.3%	0.5%	15.8%	3.0%	0.2%	1.5%	0.0%
Wyoming	40.5%	24.0%	4.3%	1.3%	2.1%	11.6%			1.7%	4.0%	0.8%	5.5%	0.2%	

*Does not include reimbursable program funds that are state specific or programs funds that affect only a small number of states; therefore, totals will not equal 100%.

Percentages represent amounts States charge to indirect costs such as rent, communications, and utilities, supplies, vehicle fuel and maintenance, etc.

Question. The House bill included report language that the Committee expects the NRCS to promptly fill RC&D coordinator vacancies. The Committee expects support provided under this act to be allocated equitably among the 375 existing councils and that priority be given to providing every council a full-time coordinator.

What States returned funds to headquarters at the end of the fiscal year?

Answer. Eight States, Alaska, Arizona, Florida, Illinois, Nevada, North Carolina, Utah, and Washington had unused funds at the end of fiscal year 2005 in amounts ranging from \$10,000 to \$101,000. There were 20 other States that had unused funds of less than \$10,000; they were Alabama, Arkansas, Georgia, Hawaii, Indiana, Maine, Massachusetts, Michigan, Mississippi, Montana, New Jersey, New York, North Dakota, Oregon, Rhode Island, Tennessee, Texas, Virginia, Wisconsin, and Wyoming. The Funds were then redistributed using the allocation formula.

Question. Please provide a chart of coordinator vacancies that took place in fiscal year 2006 and the length of time it took to fill the position with a permanent employee?

Answer. Since the beginning of fiscal year 2006 there are 10 vacancies.

State	Number of vacancies	Vacant since est.	Length vacant
Florida	1	10/05	6 months
Georgia	1	2/06	2 months
Kentucky	1	1/06	3 months
Louisiana	1	2/06	2 months
Massachusetts	1	1/06	3 months
Michigan	1	1/06	3 months
North Carolina	1	1/06	3 months
Ohio	1	1/06	3 months
Oklahoma	1	1/06	3 months
South Dakota	1	3/06	1 month

Question. Include an explanation of how appropriated funds were used while there were extended vacancies. Will vacancies that occur in fiscal year 2006 be promptly filled?

Answer. Funds are allocated to the States to support RC&D activities within the State. In most cases when there is a vacancy, appropriated funds are used for another NRCS employee to serve in an acting capacity for the Coordinator. If that is not possible, the funds are not used until the position is filled. When the positions are filled, the funds are used to cover salary and relocation costs incurred in filling the position. In some cases relocation costs can exceed \$100,000. In situations where funds are limited, filling vacancies is deferred until the employee relocation costs and salary can be absorbed. Vacancies that occur in fiscal year 2006 are being filled as funding permits.

Question. Why has no input been asked for or taken from local RC&D councils in regard to the fiscal year 2006 Goaled Performance Measures in accordance with Public Law 107-171 and NRCS's own Programs Manual part 513 on RC&D program (May, 2002) section a, b, and c?

Answer. In fiscal year 2005, NRCS established goaled performance measures for all programs covering a two-year period, fiscal year 2005 and fiscal year 2006. However, information provided by the NARC&DC, representing the 375 councils nationwide, was used in the development of the new annual, long-term and efficiency measures for the program being implemented for fiscal year 2006 and 2007. The NARC&DC, through a cooperative agreement with NRCS, provided eight long term program performance measures, and four program priorities based on their research of local RC&D council area plans.

Question. Why should local RC&D Council Members who are volunteers continue to spend their time on RC&D goals which are decided at the Washington DC level, rather than at the local, grassroots community level which was the intent of the RC&D legislation?

Answer. Performance goals established for the RC&D program are required by the Government Performance and Results Act of 1993. The goaled performance measures established for the RC&D program relate to the statutory elements outlined in the authorizing legislation and reflect program benefits that RC&D councils have been reporting for many years. Participation in the RC&D program is voluntary and not limited to goaled performance measures. However, the goaled performance measures are tied to program budget requests and the types of activities for the Federal coordinator.

Question. How can the Office of Management and Budget ignore the statutory mission established for the RC&D program?

Answer. The Office of Management and Budget does not ignore the statutory mission established for the RC&D program. Performance goals relate to the four statutory elements in the authorizing legislation of the program.

Question. Are there any other programs that have the ability to bring together grassroots community vision and mission based on local needs and leverage the dollars to local communities at 6:1-10:1?

Answer. USDA delivers a variety of rural economic development, farm support, research, conservation, and forestry programs that provide technical and financial assistance to address local needs.

Question. Why has the NRCS abandoned grassroots priority-setting for the RC&D program in response to the PART review conducted by OMB?

Answer. NRCS has not abandoned grassroots priority setting for the RC&D program. RC&D Councils can set their priorities as they relate to the four statutory elements in the authorizing legislation.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Question. In relation to the Commodity Supplemental Food Program, why would you eliminate a Federal program that provides a \$50 retail value of food each month, at a cost of just \$16 a month to the tax payers, with \$20 worth of food stamps? This would equate to a loss of \$30 in benefits to our Nation's elderly at a time of rising medical and utility costs. Isn't this an example of a judicious use of the tax payer's dollars being discarded?

Answer. The CSFP is a relatively small program that operates in limited areas of 32 States, two Indian reservations, and the District of Columbia. Its benefits are to a great extent redundant of those available through other nutrition assistance programs. In an era of fiscal constraint, we must ensure that limited resources are targeted to those programs that are available to needy individuals and families, regardless of the communities in which they reside. The populations served by CSFP are eligible to receive similar benefits through other Federal nutrition assistance programs that offer them flexibility to meet their individual nutritional needs and preferences. The administration has proposed this change to better target limited resources to those major programs that are available nationwide, promoting equity and effectiveness. If Congress adopts the budget request, we will work closely with CSFP State agencies to ensure that any negative effects on program participants are minimized and that they are transitioned as rapidly as possible to other nutrition assistance programs for which they are eligible.

Elderly participants who are leaving the CSFP upon the termination of its funding and who are not already receiving FSP benefits will be eligible to receive a transitional benefit worth \$20 per month ending in the first month following enrollment in the FSP under normal program rules, or 6 months, whichever occurs first. The average food stamp benefit for an elderly person living alone was \$65 per month in 2004. The percentage of food stamp households with elderly that received the maximum benefit (14 percent) was nearly as large as the percentage that received the minimum benefit of \$10 (17 percent). Thus, most elderly food stamp participants receive more than \$10 per month, and we expect that this pattern would extend to new FSP participants leaving CSFP as well.

Question. Why would you consider eliminating the CSFP, unlike any other, that receives donations of goods, services and volunteer hours with a value nearly equal to the administrative reimbursement by USDA? Besides providing a critical food supplement to our low income seniors, CSFP also provides a \$1 donation for every \$1 of administrative costs.

Answer. We greatly appreciate our CSFP partners at the State and local level who have worked on behalf of this program and hope that their efforts can be directed toward volunteer opportunities in other USDA commodity programs, including the Emergency Food Assistance Program (TEFAP). Under TEFAP, local nonprofit organizations that are staffed mainly by volunteers, including many faith-based and community organizations, provide USDA commodities to the needy, either as prepared meals in soup kitchens, or through food pantries as commodities to be used by households. In addition, many TEFAP local organizations actively seek donations of commodities from other sources, including local grocery stores.

Question. What will you do for the 25 percent of the CSFP participants who are already enrolled in the food stamp program and would be losing a critical benefit?

Answer. CSFP recipients who are already enrolled in the FSP will continue to receive monthly food assistance benefits and have access to nutrition education services.

Question. Isn't it true that the FSP and CSFP are supplemental programs that are meant to work with each other to ease the burden upon our low income seniors?

Answer. The Food Stamp Program is the cornerstone of the national nutrition safety net, and the largest elderly nutrition assistance program, serving nearly 2 million seniors in an average month. Because the CSFP operates in limited areas, some low-income elderly have access to nutrition assistance through commodities and/or Food Stamps, while most others must rely exclusively on Food Stamps for such help. In the administration's view, ensuring adequate funding for programs that have the scope and reach necessary to provide access to eligible people wherever they may reside is a better and more equitable use of scarce resources than to allocate them to programs that cannot provide access to many areas of the country. For this reason, the administration has placed a priority on funding Food Stamps, WIC, and other nationally-available programs that provide benefits to eligible people wherever they may live, including communities currently served by CSFP. Many elderly CSFP participants are expected to be eligible for, and to make use of the FSP, from which they may receive benefits that can be more flexibly used to avoid conflicts with their individual dietary needs and preferences.

Question. Why would you consider eliminating a program that has grown by 15 States since 2000, has 5 States on a waiting list and has current participating States asking for thousands of additional caseload slots?

Answer. We face difficult challenges and decisions with regard to discretionary budget resources and have chosen to not request funding for this program for several reasons. Resources are not available to permit CSFP to operate nationwide. In an era of fiscal constraint, we must ensure that limited resources are targeted to those programs that are available to needy individuals and families, regardless of the communities in which they reside. The priority of the administration is to ensure the continued integrity of the national nutrition assistance safety net, including the Food Stamp Program and WIC.

Question. Some seniors have spoken that they prefer commodities to food stamps as was shown during your pilot program, of commodities in lieu of food stamps, in Connecticut and North Carolina. What do you say to those seniors?

Answer. We recognize that some seniors prefer commodity packages to food stamps. However, the Food Stamp Program is the Nation's primary domestic nutrition assistance program for low-income households. Because the CSFP operates in limited areas, some low-income elderly have access to nutrition assistance through commodities and/or FSP, while most others must rely exclusively on Food Stamps for such help.

In the administration's view, ensuring adequate funding for programs that have the scope and reach necessary to provide access to eligible people wherever they may reside is a better and more equitable use of scarce resources than to allocate them to programs that cannot provide access to many areas of the country. For this reason, the administration has placed a priority on funding the Food Stamp, WIC, and other nationally-available programs that provide benefits to eligible people wherever they may live and offer flexibility in benefits to meet their individual nutritional needs and preferences.

SUBCOMMITTEE RECESS

Senator BENNETT. We thank you for your testimony, sir, and for the expertise that you bring here. The next hearing of the subcommittee will be with the Food and Drug Administration on Tuesday, March 14 at 10 a.m., and the subcommittee is recessed.

[Whereupon, at 9:54 a.m., Thursday, March 9, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, March 14.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2007

TUESDAY, MARCH 14, 2006

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:05 a.m., in room SD-192, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.

Present: Senators Bennett, Craig, Kohl, and Harkin.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

FOOD AND DRUG ADMINISTRATION

STATEMENT OF HON. ANDREW C. VON ESCHENBACH, ACTING COMMISSIONER

ACCOMPANIED BY:

KATHLEEN HEUER, CHIEF FINANCIAL OFFICER AND ASSOCIATE COMMISSIONER FOR MANAGEMENT

RICHARD TURMAN, DEPUTY ASSISTANT SECRETARY FOR BUDGET, TECHNOLOGY, AND FINANCE, DEPARTMENT OF HEALTH AND HUMAN SERVICES

STEVE SUNDLOF, DIRECTOR, CENTER FOR VETERINARY MEDICINE

OPENING STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. The subcommittee will come to order.

And this morning, we are happy to welcome Dr. Andrew von Eschenbach, who is the acting Commissioner of the Food and Drug Administration. And we also welcome Ms. Heuer and Mr. Turman. We appreciate very much your being here.

This is the second subcommittee hearing we have convened since receiving the President's fiscal 2007 budget request, and it is the first time that Dr. von Eschenbach has appeared before the subcommittee.

The FDA did pretty well under the President's budget process. The budget request, not including user fees and fiscal 2006 supplemental funding, represents an overall increase of \$70 million from the level of funding in fiscal 2006. Not all portions of this subcommittee's budget did as well in terms of the President's recommendations.

The FDA budget includes increases for pandemic influenza preparedness, food defense, drug safety, tissue safety, animal drug and medical device review, and a new initiative, called the Critical Path Initiative, to speed development of medical products.

But it does include more than \$50 million in base funding reductions. We have been given very little information about the impact of these reductions, and I expect that we will discuss those in some greater detail in the hearing this morning.

Now given the fact that we are competing with other subcommittees, had to fight your way down the hall to get around the corner to come in here, and we are in the midst of the budget discussions on the floor, we are going to keep members to 5-minute rounds.

We will use the "early bird" rule. That is, Senators will be recognized in the order of their arrival, and members will be allowed to submit questions for the record. We want all of the questions to the subcommittee to be here by the close of business on the 24th of March.

Senator Kohl and I will be the only two to give opening statements. And when we have finished with our opening statements, then we will go directly to Dr. von Eschenbach for his presentation and then begin the questioning rounds.

So with that statement of the ground rules, Senator Kohl.

Senator KOHL. I thank you, Mr. Chairman.

Dr. von Eschenbach, it is good to see here you here today, and we also want to welcome Ms. Heuer and Mr. Turman as well as the rest of your staffs.

There has been, as you know, lots of interest in your budget, which appears to receive the most robust increase in the entire agricultural appropriations bill. I am pleased to see additional funding for drug and tissue safety as well as avian flu and food defense.

Also in the budget, though, there is a redirection of \$52 million and funding for some important activities and staffing levels actually decreases. These decreased activities, according to your budget, include generic drug contracts, analysis of food import samples, compliance and recall functions, certain safety activities in the biologics program, dietary supplement activities, and inspections of veterinary food and human drugs manufacturers.

This is not at all a complete list. This is obviously a concern, and we are interested to know how the priorities in this budget were determined.

We are hopeful that you will provide detailed information on this redeployment as well as your budgeted increases here today. And so, we look forward to your statement and the opportunity to ask questions.

Thank you, Mr. Chairman.

Senator BENNETT. Thank you.

Dr. von Eschenbach, your prepared statement has been received and will be included in the record at this point in its entirety. But we would appreciate it now if you would give us a summary and whatever introductory comments you may wish to make.

STATEMENT OF DR. ANDREW C. VON ESCHENBACH

Dr. VON ESCHENBACH. Thank you, Mr. Chairman.

Good morning, Senator Kohl. And good morning, Senator Craig, and other members of the staff.

I am very honored to be here as the acting Commissioner of the Food and Drug Administration to present this 2007 fiscal year budget. But most of all, to also have the opportunity to thank you for the continued support and commitment that you have made to the FDA in helping to assure that it continues to be the gold standard around the world for the safety and effectiveness of the interventions that we provide to people.

Our 2007 budget request proposes a total budget of \$1.95 billion, of which \$1.54 billion is in discretionary budget authority and \$402 million will be in user fees from the firms that we regulate. These funds are precious, and they are, in fact, essential to FDA's continuing effort to assure that Americans can go to bed each night confident that the food they ate is safe, the medical devices they use are reliable, and the drugs that they gave to their children and grandchildren were safe and effective.

As we developed this 2007 proposal, the first thing we focused on was FDA's most precious asset, its people. The funds we are requesting are essential for us to continue to recruit, retain, and nurture a critical and diversified staff of highly skilled professionals and scientists who make it possible for the FDA to achieve the gold standard in regulating foods, drugs, and medical products.

Our request includes \$20 million for cost of living increases that are essential to meet payroll obligations and needed funds for the infrastructure to support our workforce and consolidate FDA operations in modern facilities at White Oak.

In addition to the workforce-related issues, we have also focused on emerging urgent public health challenges and opportunities. The increase of \$30.5 million over fiscal year 2006 for pandemic preparedness is for a comprehensive program that is designed to safeguard Americans from the danger of avian flu by enhancing and integrating our programs across vaccine development, antivirals, enhancement of devices for detection as well as for human protection, and also include issues with regard to animal welfare and human health.

The \$20 million for food defense is to protect the Nation's food supply both from intentional terrorist attacks as well as to enhance our ability to safeguard the food supply from unintentional contamination.

\$4 million for human drug safety, plus an additional \$700,000 in user fees, we believe will strengthen our capacity to recognize and act upon emerging drug safety concerns. And the \$2.5 million for human tissue safety is in response to the dramatic growth that we are experiencing in the use of tissues for transplantation and the anticipation of the emerging challenges that will come from tissues obtained through bioengineering.

With regard to the request for \$6 million for the Critical Path to Personalized Medicine, this initiative is an essential investment, an investment in FDA's ability to respond to the explosion in molecular medicine that is responsible for and resulting in progress toward new treatments, diagnostics, and preventive interventions.

By using the science and technology of the 21st century, Critical Path will help ensure that FDA can guide these new discoveries

through the development process so that they are able to be delivered to patients in a rapid, safe, and effective manner.

A modern, robust Critical Path will lead to solutions that will deliver on the promise of making our future health care personalized, predictive, preemptive, and, in fact, more cost effective.

As you have indicated, to partially offset the cost of these initiatives and, most importantly, as good stewards of the resources that you have already provided, FDA has undergone a process to identify and an activities for opportunities for efficiencies and proposes to strategically redeploy \$52 million in base funds.

We have done this, first and foremost, with the principle to not undermine or impair our commitment to public health. But we believe by looking at opportunities within the portfolio to determine where there are programs that could be effectively carried out by alternative or other strategies, where there are opportunities to eliminate waste and maximize the impact of our investment, we believe that we can modernize and transform our business operations, as well as our programmatic operations, to address the emerging needs of the 21st century.

We will accomplish this strategic redeployment while assuring you that we will maintain our century-old commitment to assuring the health and welfare of the American public.

There are two new user fees that are being proposed. One covers the cost of re-inspecting facilities that fail to meet standards, and the second would cover the cost of issuing food and animal feed export certificates.

As you have pointed out, the investment in the FDA in this budget is investment in the future of our country and our commitment to continue to ensure the health and safety of the American public. We propose to use these resources wisely and carefully as good stewards and, in doing so, assure a healthier America for generations to come.

PREPARED STATEMENT

We really are grateful and appreciate your commitment and your interest to working together with us, as we will with you, to be sure that we fulfill that goal.

[The statement follows:]

PREPARED STATEMENT OF DR. ANDREW C. VON ESCHENBACH

Introduction

Good morning Chairman Bennett, Senator Kohl, and distinguished members of the Subcommittee. I am very honored to have been appointed by President Bush 6 months ago as Acting Commissioner of the FDA, and I consider it a privilege to present our fiscal year 2007 budget request on behalf of this extraordinary agency. I am joined today by Ms. Kathy Heuer, FDA's Chief Financial Officer and Associate Commissioner for Management, and Mr. Richard Turman, Deputy Assistant Secretary for Budget, Technology, and Finance of the Department of Health and Human Services (DHHS). I also have members of FDA's senior leadership with me at today's hearing.

Last September, President Bush selected me to lead an agency to which I appreciate, we, as Americans owe a great debt of gratitude. Millions of Americans go to sleep each night, secure in the knowledge that the food they ate and the medicines they gave their child were safe and effective. They do so, thanks to the thousands of dedicated professionals at FDA who work to assure the safety, efficacy, and security of drugs, vaccines and biological products, medical devices, our Nation's food supply, and other consumer products.

This year, the Food and Drug Administration will celebrate its 100th birthday, marking a century as America's gold standard for safety and consumer protection. We began in 1906, when Congress passed and President Theodore Roosevelt signed the Food and Drugs Act. This statute entrusted the Bureau of Chemistry, an office in the U.S. Department of Agriculture, to implement the sweeping new law. The Bureau eventually became the FDA, an agency of the Department of Health and Human Services. As the first consumer protection agency in the United States, FDA has a distinguished record, established during its 100 years of service to the American public.

Today, the products we regulate represent almost 25 percent of U.S. consumer spending and include 80 percent of our food supply and all human drugs, vaccines, medical devices, tissues for transplantation, equipment that emits radiation, cosmetics, and animal drugs and feed. FDA takes great pride in its heritage and accomplishments, promoting and protecting the health and well-being of all Americans.

I assure you that the precious resources you provide this agency in fiscal year 2007 will be used wisely and judiciously to ensure that we maintain this record of excellence, as well as work to respond to the growing challenges to advance the Nation's public health in a new era of rapidly developing science and individualized medicine.

I want to thank the Subcommittee members for providing FDA with several key increases in the fiscal year 2006 appropriation. The Subcommittee demonstrated its commitment to FDA's mission by providing increases for drug safety, the Critical Path Initiative, review of direct-to-consumer advertising, Food Defense, medical device review, and the FDA consolidation project at White Oak, Maryland. In addition to the amounts in the annual appropriations bill, I also want to express my thanks to Congress for the supplemental appropriation of \$20 million to contribute to our Nation's preparedness for the threat of pandemic flu. FDA enters this appropriation cycle mindful of our responsibility and stewardship, and that all Federal agencies must operate in an environment where our dollars must go to the greatest need.

FDA's 2007 President's Budget Request

In our fiscal year 2007 budget, the Administration proposes a total program level for the FDA budget of \$1.95 billion, an increase of 3.8 percent above the fiscal year 2006 amount. This includes \$1.54 billion in discretionary budget authority and \$402 million in current law user fees. Our budget also includes \$25.5 million for two new user fees. Our budget request maintains critically important core functions and demonstrates that our programs meet a firm test of accountability. At the same time, we are heeding the President's call to assure continued progress by fostering innovation and focusing on emerging priorities. In fiscal year 2007, FDA will employ resources to advance its mission to protect the public health by assuring the quality of food and medical supplies and by implementing advanced technologies to monitor and speed innovations to market that will make foods safer and medical products more effective, safer, and more affordable. We will also implement advanced tools to ensure that the medical community can use molecular biology to improve outcomes for patients. We must accomplish these goals in a way that provides the public with the accurate, science-based information they need to use food and medicine to improve their health.

The President's budget focuses on six emerging, and urgent challenges and opportunities. To address these challenges, the budget proposal increases funding in these targeted activities above the amount provided in fiscal year 2006: \$30.5 million for Pandemic Preparedness, \$19.9 million for Food Defense, \$5.9 million for the Critical Path to Personalized Medicine, \$4.0 million for Human Drug Safety (plus an additional \$0.7 million in user fees), \$2.5 million for Human Tissue Safety, and \$7.4 million to meet the statutory triggers of the Animal Drug and Medical Device user fee programs. In addition to these high priority initiatives, the budget requests \$20.3 million for inflationary cost-of-living increases that will enable the agency to recruit, nurture, and retain a critical mass of highly skilled professionals and scientists. This dedicated staff is necessary to respond to greater challenges in the regulatory process, including increased complexity of the sciences and technology and the need for a more rapid pace.

FDA also seeks \$1.2 million for the Unified Financial Management System, and an investment of \$14.3 million for the agency's infrastructure needs. To partially offset the cost of these initiatives, the President's budget proposes to strategically redeploy \$52.3 million in base funds. Even in an era of declining budgets, FDA recognizes the need to modernize and transform operations to address the emerging needs of the 21st century. Therefore, we engaged in an ongoing process to strategically redeploy resources to address high-risk public health challenges while main-

taining our century-old commitment to principles that have made us the world's "gold standard" for regulating food and medical products. In doing so, the proposed budget will permit FDA to meet its ongoing statutory and regulatory responsibilities, while allowing us to initiate new and expanded efforts in critical areas of our mission. Now I would like to provide you with greater detail on our proposed budget increases.

Pandemic Preparedness (+\$30.5 million)

To safeguard Americans from the danger of pandemic influenza, FDA requests a total base program of \$55.3 million in fiscal year 2007. This amount is \$30.5 million more than the fiscal year 2006 enacted level, which includes the \$20 million in supplemental appropriations provided by Public Law 109-148. The supplemental will allow FDA to rebuild and enhance its infrastructure; provide personnel and expertise in the essential clinical, product and manufacturing areas necessary to support new vaccine development for pandemic influenza. With the fiscal year 2007 funds, we will conduct a more comprehensive program to prepare for and respond to the risks of a pandemic flu outbreak. The resources will build upon the program this Congress launched in the supplemental, and will allow FDA to:

- Engage in public-private partnerships to select, prepare, and test pandemic seed strains of variants of the H5N1 virus.
- Develop reagents (used to assess vaccine potency) that are essential for successful large-scale manufacturing.
- Evaluate and license flu vaccines that rely on current egg-based technology as well as encouraging the development of new approaches such as cell culture-based vaccines, recombinant vaccines, and vaccines that contain adjuvants—substances added to vaccines to stimulate an immune response.
- Provide essential technical support to vaccine manufacturers throughout the vaccine development process, including support throughout the manufacturing phase.
- Develop analytical methods to detect, identify, and quantify antiviral residues in poultry, so that these drugs do not promote drug resistance in humans.
- Develop and validate methods to detect avian influenza in foods and advise American consumers about how to safely handle and cook these foods.

We make this request because public health experts tell us that the risks of being unprepared for a pandemic could mean the death of up to 200,000 Americans (based on a medium-level pandemic scenario) and economic losses of up to \$160 billion. In the near term, our pandemic initiative will stimulate broader interest among vaccine manufacturers, as they recognize that FDA will provide consistent technical support to overcome vaccine development hurdles. We have already seen results in this area. In the longer term, our fiscal year 2007 investment will yield essential seed strains and reagents, and allow us to transfer this technology to manufacturers, while we also perform our regulatory responsibilities of evaluating and licensing pandemic influenza vaccine products. Over the next 2–4 years, we will also fulfill our public health responsibilities related to foods and veterinary products, by delivering methods to detect antiviral residues and by educating Americans about safe food practices.

Food Defense (+\$20 million)

FDA seeks an investment of an additional \$20 million in fiscal year 2007 to protect the Nation's food supply from terrorist attack, by developing and deploying improved methods to screen food and feed imports and expanding the Food Emergency Response Network (FERN).

FERN is a network of Federal and State laboratories designed to ensure that we have the analytic surge capacity to respond to an attack on the food system. By the end of fiscal year 2006, we plan to have an operational FERN system of 10 Federal and 10 State labs. The fiscal year 2007 funds (\$13 million) will allow FDA to expand the current network by six additional labs, located at existing State facilities, and we will work to bring these on-line before the end of the fiscal year. We will fully equip these new labs, and provide operational funding and technical assistance so that they can conduct food defense activities. Our technical assistance will include proficiency testing on the new equipment and training to validate their ability to conduct food testing in response to an emergency. The result of this investment will be a more robust and more geographically diverse capability to provide the essential surge capacity to test contaminated food samples and allow us to warn the public about threats to the food supply. By working cooperatively with State facilities, we can stretch our Federal dollars and strengthen food defense at the Federal and State level.

Within the \$20 million increase, we will also:

- Conduct food defense research (\$1 million) to fill in gap areas that we identified in the vulnerability assessments we conducted on 23 major food products such as baby food, infant formula, dairy products, soft drinks, and bottled water.
- Strengthen the Electronic Laboratory Exchange Network (eLEXNET), an Internet based data exchange system used by Federal, State, and local government food safety laboratories. Using fiscal year 2007 funds, we will use eLEXNET to provide food sector-specific information to sister agencies and build a secure interface so that we can exchange data with DHS. Finally, we will purchase essential reagents and test kits to conduct biomonitoring surveillance. In fiscal year 2007, we will spend \$2 million of the Food Defense increase for these activities.
- Improve our Emergency Operations Network (\$1 million) to allow FDA to conduct more sophisticated incident tracking for food-related emergencies.
- Continue Field support of food defense operations (\$3 million), including the targeting of potentially high-risk imported foods through Prior Notice Import Security Reviews based on intelligence, FDA inspection reports, discrepancies in prior notice reporting and sample collection and analysis.

Critical Path to Personalized Medicine (+\$5.9 million)

FDA requests an increase of \$5.9 million in fiscal year 2007 for the Critical Path to Personalized Medicine initiative. This will allow us to increase the predictability and efficiency of developing new medical products, and deliver greater benefits to patients as we accelerate the field of personalized, predictive, preemptive, and participatory medicine. Our goal is to stimulate a new generation of scientific tools that will enable product sponsors to evaluate and predict the safety and effectiveness of drugs. This will permit physicians to tailor therapies to individual patients and avoid potentially dangerous adverse events. The Critical Path to Personalized Medicine Initiative also fulfills the Congress' expectation under the Food and Drug Administration Modernization Act, when it charged FDA to work collaboratively with partners in government, academia, and industry to advance medical product development. A modern, robust Critical Path will lead to solutions that will deliver on the promise to make our future health care, personalized, predictive, preemptive, and more cost effective.

The fiscal year 2007 investment will support:

- Imaging Initiative.*—Our Critical Path investment will support efforts to accelerate an understanding of the use of positron emission tomography (PET) and other advanced imaging technologies as surrogate endpoints for developing new cancer drugs. A surrogate endpoint helps to predict the benefit that a patient may experience from therapy. In fiscal year 2007, we will participate in developing technical standards for PET imaging—the tools that will enable drug developers to evaluate and improve the effectiveness of new products.
- Improving Stent Design.*—Cardiovascular disease is a significant cause of morbidity and mortality in the United States, and drug eluting stents have become a standard therapy to address cardiac disease in many patients. Today, most vascular stents eventually fail and alternative designs are difficult to test in humans. Our objective is to improve stent performance and safety by predicting and avoiding product failures. In fiscal year 2007, we will develop the preliminary components of a simulation model of drug eluting stent behavior in adults and children. Also in fiscal year 2007, we will work to develop open source imaging software to assess stent performance and begin to develop guidance for industry on using the simulation model to predict stent performance.
- ECG Warehouse.*—We will invest funds to develop the tools to permit searches of electrocardiogram (ECG) data submitted with drug applications so that we can identify cardiovascular risk patterns associated with unsafe drugs. We will also partner with academia and the public sector in fiscal year 2007 to conduct additional ECG analyses. This will improve our ability to identify cardiac safety concerns before we approve a drug for marketing and also detect post market safety signals. Through these activities, we will help ensure that therapies are safe and effective, and we will improve outcomes for patients who are using products that are already on the market.

The need for new medical treatments and the investment of billions of dollars in basic biomedical research led many in the medical community to anticipate a new wave of medical products capable of dramatically saving and extending lives. Yet the recent slowdown in the rate of new medical treatments actually reaching patients is a significant concern at FDA. Products fail before they reach the market because clinical trials fail to demonstrate safety or efficacy, or they cannot be manufactured at a consistently high quality. Despite recent innovations, many serious and life-threatening diseases still lack effective treatments.

At FDA, we witness the full spectrum of drug, device, and biologic product development. From this unique perspective, it is clear that the development of evaluative scientific tools to utilize in medical product development has not kept pace with the rapid advances in basic sciences. The path from cutting-edge medical discovery to the delivery of safe and effective treatments is long, arduous, and uncertain—and it does not yield extensive information on product performance. To correct this imbalance, FDA initiated the Critical Path to Personalized Medicine, a program designed to modernize medical product development to ensure more efficient and more informative product development and clinical use. FDA considers the Critical Path Initiative to be its top scientific policy initiative for at least the next 5 years.

FDA's Critical Path Initiative will stimulate research community efforts to identify the essential biomarkers and improved clinical trial designs that will accelerate product development. Biomarkers are measurable characteristics that reflect physiological or disease processes. Medicine can use biomarkers to predict or monitor response to therapy. The initiative will generate essential information to identify patients likely to benefit from a treatment and patients more likely to respond adversely to a product. Without clinically proven biomarkers and innovative trial designs, we cannot modernize medical product development and realize the potential of personalized medicine. The subcommittee recognized this need when it appropriated funds for FDA in fiscal year 2006 to study cardiovascular biomarkers predictive of safety and clinical outcomes, and the funds that we request in fiscal year 2007 will support broader efforts to achieve personalized medicine.

Drug Safety (+\$4.7 million in budget authority and user fees)

FDA will build on recent improvements to its drug safety activities with an fiscal year 2007 increase of \$4.7 million (a \$3.96 million increase in budget authority and \$0.74 million in PDUFA user fees). The proposed fiscal year 2007 budget will provide a significant increase to our base resources for drug safety and will allow FDA to continue to strengthen our capacity to recognize and act on emerging drug safety concerns.

As we plan for fiscal year 2007, we must continue to focus on the needs of the patient. We must constantly ask ourselves—how can we achieve the proper risk/benefit balance while speeding patient access to safe and effective products? U.S. pharmacies fill approximately 3.7 billion prescriptions per year and consumers make more than 5 billion over-the-counter drug purchases annually. The effect of these medicines on the full spectrum of our population causes unforeseen problems to surface that may not have appeared during the sometimes-lengthy drug review process.

Our fiscal year 2007 drug safety request will permit us to launch a web-based system that provides agency analysts faster access to adverse event reports. Known as AERS II, this system will allow FDA to more easily evaluate potential safety issues, and improve our ability to take follow-up actions to protect patients. Fiscal year 2007 funding will also allow us to analyze valuable drug safety information housed in CMS and other population-based databases and to conduct studies of high priority safety issues in the Medicare population. Studies conducted on these types of databases will provide more supporting evidence about drug use under a broader range of conditions, and more detailed evidence about drug safety in subgroups of patients, such as the elderly, and in patients with multiple medical conditions. This will provide FDA with many of the tools necessary to formulate and communicate safety information to health care practitioners, consumers, and the research community in a more timely and user-friendly way.

We have made important drug safety enhancements during the past year, and I would like to highlight these activities for your now. The members of this Subcommittee provided an increase of \$9.9 million in FDA's fiscal year 2006 budget. We will bolster premarket and postmarket drug safety functions by using these funds to:

- Increase the professional staff in FDA's Center for Drug Evaluation and Research (CDER) who perform high priority drug safety reviews.
- Increase the number of staff with expertise in critical areas, such as risk management, risk communication, and epidemiology.
- Expand our information technology infrastructure for monitoring post-marketing data by increasing access to a wide range of clinical, pharmacy, and administrative databases.
- Hire additional experts to enhance use of multidisciplinary, multi-office teams to interpret drug safety data.
- Access external population-based "linked" databases to identify drug safety signals.

Other important drug safety accomplishments during the past year include:

- Establishing a Drug Safety Oversight Board to provide independent oversight and advice on drug safety and disseminating safety information. The Board conducted 5 meetings in 2005 to discuss 17 drug products with potential risks.
- Appointing a new director of CDER's Office of Drug Safety.
- Conducting a public meeting of experts to assess risk communication about drugs and to plan future communication efforts.
- Unveiling a major revision to the format of prescription drug information, commonly called the package insert, to give healthcare professionals clear and concise prescribing information.

These efforts emphasize our commitment to providing the American public with safe and effective medical products.

Tissue Safety (+ \$2.5 million)

FDA requests an increase of \$2.5 million to provide the essential resources to support a human tissue safety, including our role in monitoring the expanding field of tissue transplantation and the emerging challenges of bioengineering. These funds will allow the agency to:

- Commence a comprehensive risk-based approach to assure the safety and quality of human cells, tissues and cellular and tissue-based products used for transplantation. Examples include corneas, heart valves, ligaments, joints, skin, or other tissues.
- Promptly monitor and investigate adverse events and tissue product problems.
- Take early action to improve tissue practices and prevent tissue-related injuries and deaths.
- Educate industry, the medical community, and the public about human tissue safety.
- Support promising new technologies that use cells and tissues, including therapies for diseases such as cancer, AIDS, Parkinson's disease, hemophilia, diabetes, and other serious conditions.

This program will provide guidance and predictability to more than 2,000 registered establishments that process and distribute tissue products used in medical procedures that save or enhance the lives of recipients. FDA has seen its workload in the area of human tissue transplants rise dramatically as transplants have increased from approximately 350,000 in 1990, to more than 1,000,000 annually. The number of transplants will continue to rise in the years ahead.

With these resources, FDA will conduct 75 additional tissue inspections in fiscal year 2007 and thereby increase our annual inspection coverage to 325 facilities. Through inspection and monitoring activities, we can ensure that establishments demonstrate safety and efficacy of their products. These funds will also permit FDA to rapidly review, track, and analyze tissue deviation reports. Finally, we will issue guidance for industry on emerging issues relating to the eligibility of donors and good tissue practices. The goal of these efforts is to ensure safe outcomes for patients when they receive tissue transplants.

FDA's announcement in early February that we ordered a New Jersey company to cease operations is evidence that we will take action to protect the public health against tissue manufacturers that fail to follow safety requirements. This is an example of the targeted enforcement action we will conduct to protect the public health when we have evidence unsafe tissue practices.

Budget Authority in Support of User Fee Programs—MDUFMA and ADUFA (+ \$7.4 million)

To achieve more timely and cost-effective review of new medical devices and animal drugs, we continue to implement Medical Device User Fee and Modernization Act (MDUFMA) and the Animal Drug User Fee Act (ADUFA). Congress enacted these statutes to allow the agency to collect user fees from companies that submit medical device and animal drug applications.

In fiscal year 2007, we are requesting a total increase of \$7.4 million in new budget authority (\$4.9 million for medical devices and \$2.5 million for animal drugs) to ensure that we meet statutory requirements, known as triggers, and fulfill the fiscal year 2007 performance commitments under these programs. If we do not receive sufficient budget authority to meet the statutory triggers, FDA will lose the right to collect \$55.3 million in user fees. The flow of potentially life saving medical devices will decline and the use of unapproved drugs in food-producing animals will likely rise.

Under both these user fee programs, we pursue a complex and comprehensive set of product review goals. Each year brings additional goals, and the goals become more aggressive. FDA provides a complete report on its performance on under these programs at the end of each year.

The proposed increase will permit FDA to maintain its highly skilled scientific and professional review staff and conduct speedier review and approval of safe and effective medical devices. Under MDUFMA, FDA is meeting, or is on track to meet, nearly all of the performance goals for fiscal year 2003, fiscal year 2004, and fiscal year 2005. We will continue to make program improvements to ensure we meet the goals for fiscal year 2006 and fiscal year 2007. Under ADUFA, FDA expects to meet or exceed all performance goals.

Cost of Living—Paying our People (+\$20.3 million)

Soon after the President appointed me Acting Commissioner, I told my FDA colleagues that the well-being of our agency's employees was one of my top priorities. The talented and dedicated FDA employees are the agency's most precious asset and are the primary reason for our success.

The proposed increase of \$20.3 million to meet inflationary pay costs is essential to FDA's ability to accomplish its public health mission. Payroll costs account for more than 60-percent of the FDA budget, and the Agency is not able to absorb inflationary increases on such a significant portion of its resources. These funds will allow FDA to maintain its world-class workforce and achieve the promise of a healthier America.

FDA's diverse portfolio of public health responsibilities demands that we maintain a large cadre of scientists and professionals with the training and experience to respond to complex and escalating public health challenges. This workforce is directly engaged in both developing the science of regulation as well as administering regulatory functions.

FDA professionals are increasingly challenged by evolving food defense responsibilities as well as growing responsibilities in regulation of vaccine, drug, and device, development. Within the past year, they have addressed threats such as BSE (Mad Cow Disease), Salmonella, West Nile Virus, and pandemic flu. The FDA workforce reviews, approves, and continues to ensure the safety and effectiveness of products to manage cancer, diabetes, and heart disease, as well as oversee products intended to preserve health. FDA principally expends its budget for payroll that allows us to recruit and retain a skilled workforce dedicated to safeguarding the public using advanced tools to preempt public health threats.

Unified Financial Management System (UFMS) (+\$1.2 million)

In fiscal year 2007, FDA seeks an increase of \$1.2 million to fully utilize the Unified Financial Management System (UFMS) for all of our financial transactions. These funds will allow FDA to achieve a major program milestone in the implementation of a new centralized financial management system under the Department of Health and Human Services (HHS). These additional funds would bring the fiscal year funding level to \$14.1 million.

UFMS is changing the way HHS agencies do business as it improves efficiencies in business processes and technology. It will replace five redundant and outdated accounting systems in use at the National Institutes of Health, the FDA, the CDC, the Centers for Medicare and Medicaid Services, and the DHHS Program Support Center. The requested increase and the base funds in our budget will support dual functions. First, as a component of the Department-wide system, FDA resources will support testing and integration of the UFMS system, as well as regular operation and maintenance of UFMS. Second, fiscal year 2007 funding will support FDA-specific functions such as the purchase of reporting tools and software licenses, essential system upgrades and new software releases, and training to support FDA users of this new system. This will ensure that we satisfy financial requirements and provide timely financial information to executives and managers to support better decision making. As FDA fully integrates UFMS into our systems and way of doing business throughout fiscal year 2007, we expect to witness the projected efficiencies for this vital enterprise and be able to use UFMS' full financial management capability.

Infrastructure (+\$11.3 million)

In fiscal year 2007, FDA submits a modest request to fund three fundamental components of our physical infrastructure:

- An increase of \$10.5 million for rent payments to the General Services Administration (GSA).
- An increase of \$3.8 million in budget authority to maintain progress on the White Oak Consolidation project.
- A reduction of nearly \$3 million below the fiscal year 2006 appropriated level for our Buildings and Facilities account.

In total, these proposals would result in a net increase of \$11.3 million for fiscal year 2007.

We also plan to commit \$8.2 million in PDUFA carryover funds to the White Oak project and \$1.9 million for GSA rental payments. FDA continues to seek support for the White Oak project with the goal of eventually housing over 7,700 staff in 2.3 million square feet of space. As of the end of calendar year 2005, we have approximately 1,850 staff on site at White Oak, in three buildings with almost 700,000 square feet. The new buildings will eventually replace all 40 existing, fragmented facilities in 16 locations that support the Office of the Commissioner, and all of our Centers and the Field headquarters, other than the Center for Food Safety and Applied Nutrition and the National Center for Toxicological Research.

Proposed User Fees: Reinspection and Food/Animal Drug Export Certificates (\$25.5 million)

In addition to those user fees authorized by statute, the FDA is proposing two new user fees. The first, estimated at \$22.0 million, would pay the full cost of reinspection and other FDA follow-up work if a manufacturer fails to meet important FDA requirements such as Good Manufacturing Practices, which help ensure high quality and safety of FDA regulated products. When a firm fails an inspection, FDA must conduct a reinspection and perform associated laboratory analysis to verify the firm's corrective measures.

The reinspection user fee will ensure that facilities that fail to comply with established health and safety standards bear the cost of FDA follow-up inspection. We are asking Congress to assess the cost of follow-up inspections on those who fail to comply, rather than on the American taxpayer, who bears the cost today. The natural consequence of this change will be that manufacturers will work to ensure that they meet established standards.

The second proposed new user fee will cover the cost of issuing an approximately 37,000 food and animal feed export certificates. We have estimated the cost of this user fee program at \$3.5 million. Although the agency's effort to issue these certificates benefits industry exports, FDA must support this function at the cost of other vital public health activities. FDA's proposal for user fees would establish a source of dedicated funding for this activity and allow the agency to better perform this function. The domestic food and animal feed industry would benefit from the agency's enhanced ability to facilitate the exportation of their products.

The Federal Food, Drug, and Cosmetic Act (the Act) authorizes FDA to collect user fees for export certificates for human drugs, animal drugs, and devices. However, this authority does not extend to collecting user fees for export certificates for foods and animal feed. FDA expends significant resources annually to issue these certificates, and the agency needs to focus its resources on activities that are central to its public health mission. The Administration has asked that Congress fund these two user fee programs with mandatory budget authority.

Current Law User Fees (+ \$20.2 million)

We are also requesting an increase of \$20.2 million for user fees that support prescription drug review, medical device review, animal drug review, mammography inspections, export certification, and color certification fees, for a total fiscal year 2007 user fee level of \$402 million. These fees enable FDA to review medical products in a timely manner and reimburse FDA for two services (color certification and export certification for human drugs, animal drugs, and devices) that we provide to industry. All of these requested fee increases are authorized under current law. In fiscal year 2007, FDA will work with Congress on the reauthorization of the PDUFA, MDUFA, and ADUFA user fee programs.

Closing

Mr. Chairman, I look forward to working with you, members of the Subcommittee, and your staffs to maximize FDA's resources in the best interest of the American people and our country as we move into fiscal year 2007. The agency's program level request of \$1.95 billion is necessary to perform our mission—established by Congress a Century ago—to protect and promote the health and safety of the American public. At the Food and Drug Administration, we work tirelessly to fulfill these public health responsibilities. Our goal is to maximize the benefits and minimize the risks from the products we regulate.

Among my highest priorities as Acting Commissioner—for as long I am privileged to serve at the helm of FDA—will be to foster the development of the FDA of the 21st Century. Building on the success of the past, we will maintain our "covenant of trust" with patients and the public. We will assure they have safe, effective, modern, and cost efficient solutions for the challenges to their health and well-being, and the health and well-being of their children and grandchildren. A well managed and adequately funded FDA will mean a healthier America for many generations to come.

STRATEGIC REDEPLOYMENT

Senator BENNETT. Thank you very much.

You talk about reprogramming and redirecting the \$52 million. Would you please provide for the record more specific information on each program that you plan to either reduce or eliminate and the impact this will have?

Dr. VON ESCHENBACH. Yes, sir. We will be very pleased to provide that for the record in significant detail.

[The information follows:]

Budget Authority Overview
(in Thousands)

Program							
Center for Food Safety and Applied Nutrition							
To fund FY 2007 priority initiatives such as such as food defense and pandemic influenza, FDA re-deployed resources from base programs.							
Program Areas	Redeployment Amount			Strategy			
	BASE PROGRAM \$	AMOUNT REDEPLOYED \$	FTE BASE	FTE REDEPLOY	For Meeting Public Health Commitment		
Food Additive Petitions	\$2,680	\$744	18.00		5	The center will continue premarket approval of food and color additives with reduced staff and will examine ways to achieve greater efficiency in the approval process.	
Non-Biotechnology Research	\$21,310	\$3,127	97.00		13	The center will eliminate low priority food safety research, such as food quality issues, and focus on public health problems that have the greatest potential to cause illness and death.	
Cosmetics	\$3,000	\$1,500	30.00		15	With reductions, the Office of Cosmetics and Colors (OCC) will eliminate low priority cosmetic safety research, transfer compliance functions to other divisions, eliminate issuance of certificates of free sale, reduce resources to maintain both the paper and electronic Voluntary Cosmetic Registration Program (VCRP) versions of the program, and rely on a web-based information exchange instead of fielding consumer and industry calls.	
Dietary Supplements (CAERS)	\$7,622	\$1,200	10.00		7	The center will reduce its CAERS staff by 7. The center will also examine the feasibility of incorporating adverse event data related to dietary supplements into broader, center or agency-wide adverse event reporting systems. In the meantime, the center will concentrate review of adverse event reports on urgent public health matters.	
Proficiency Testing	\$1,000	\$500	7.00		0	The center will decrease laboratory testing and methods validation, including proficiency testing, and will reduce evaluation of the efficacy of our food safety surveillance programs.	
Food Contact Substances Notification Program	\$5,730	\$2,000	43.00		11	CFSA will continue to approve food contact substances prior to marketing using the petition and rulemaking approach, ensuring that these substances continue to meet the same safety standards. We will work with industry to make this transition as efficient and timely as possible.	
Outreach and Standard Setting Activities	\$4,100	\$3,010	24.00		11	The center will reduce the consumer hotline staff and hard copy outreach, while improving the navigability and content of web resources to continue to provide consumers with essential information on health and food safety. The center will reduce Codex and food standard setting activities.	
Regulatory Support Function	\$1,690	\$1,550	22.00		7	The center will reduce its regulatory support staff and its contracts for regulatory support work. We will continue to meet our obligations for economic analyses and consumer studies in support of our regulations, but at a reduced pace.	
Personnel Efficiencies		\$583			0	Efficiencies will be realized through normal attrition and buyouts to avoid impact on public health.	
Total	\$47,142	\$14,324	25.1		69		

Food and Drug Administration
Center for Drug Evaluation and Research FY 2007 Strategic Redeployment
(In Thousands)

Program		FY2006 Enacted	Strategic Redeployment	Program Increases	FY2007
Center for Drug Evaluation and Research		\$217,797	\$5,430	\$12,842	\$225,209
To fund FY 2007 priority initiatives such as Drug Safety and the Critical Path to Personalized Medicine, FDA re-deployed resources from base programs.					
Program Areas	BASE PROGRAM \$	Redeployment Amount		Strategy	
		AMOUNT REDEPLOYED \$	FTE BASE	FTE	For Meeting Public Health Commitment
Generic Drug Research Contracts	\$200	\$200	N/A	N/A	We will not cut resources for generic drug review functions. In fact, our current spending exceeds our Congressional earmark. We will pursue other methods to identify bioequivalence standards for novel dosage forms. We will also pursue leveraging through cooperative research agreements and by working with industry, consistent with the objectives of the Critical Path Initiative.
Research Activities -- Attrition and Lab Support	\$5,750	\$841	36	4	We will apply a risk-based approach to our research activities, focusing on the highest priority issues and leveraging activities through the Critical Path Initiative. We will explore opportunities to partner with other Department and other Government agencies and coordinate with external industry partners where possible. We will seek innovative ways to maintain our labs through cost savings and other strategies.
Center wide administrative services and support -- includes communications, staff management, and FOI support	\$20,051	\$2,860	130	10	We will continue to apply our best practices for managing the volume and complexity of FOI requests, continuing to identify and implement additional efficiencies where possible. We will leverage Center best practices for providing administrative and support services. We will continue efforts to consolidate programmatic functions and streamline operations to ensure that mission-critical functions continue effectively.
Information Technology Infrastructure	\$1,700	\$1,379	N/A	N/A	We will seek to leverage our existing information systems processing and computing equipment and partnering with other Agency Centers/Offices to support Center programs by consolidating applications on existing servers and by applying best practices for managing our infrastructure and seeking more cost effective methods for providing IT support services.
Information Technology Infrastructure (Generic Drugs Program)		\$150	N/A	N/A	We will not cut resources for generic drug review functions. We will make every effort to leverage our existing information systems processing and computing equipment and partner with other FDA Centers/Offices to support the generic drugs program.
Total	\$ 217,701	5,430	166	14	

Food and Drug Administration
Center for Biologics Evaluation and Research FY 2007 Strategic Redeployment
(In Thousands)

Program	FY2006 Enacted	Strategic Redeployment	Program Increases	FY2007
Center for Biologics Evaluation and Research	\$111,832	\$7,568	\$17,542	\$121,806

To fund FY 2007 priority initiatives such as Pandemic Preparedness and the Human Tissues Initiative, FDA re-deployed resources from base programs.					
Program Areas	Redeployment Amount			Strategy	
	BASE PROGRAM \$	AMOUNT REDEPLOYED \$	FTE BASE	FTE	For Meeting Public Health Commitment
Guidance Development	\$2,593	\$1,400	22	6	CBER will develop guidances that offer the greatest impact on product development and on product areas that have public health and patient safety benefits. Efforts to provide outreach and guidance to encourage and orient specific product development will increase efficiencies in review. CBER will also work with stakeholders to identify opportunities for outside parties to develop and submit draft guidance for consideration.
Interactions with Sponsors	\$154	\$70	1	0	CBER will concentrate its resources to facilitate the development of biological products to meet unmet needs. CBER will also optimize its business process to increase productivity from our early interactions with product sponsors. CBER will utilize information technology enhancements to improve the efficiency of review and product testing. CBER will use science-led interactions with sponsors to guide the development process. CBER will also leverage activities with NIH and other HHS partners.
Communications and Outreach					CBER will focus consumer and patient information resources on areas with immediate consumer interest and health impacts. CBER will also engage in leveraging of communications with CDC and others in areas such as vaccines, blood and tissues. CBER will concentrate its industry outreach resources to facilitate the development of biological products of high public health benefit. CBER will use coordinated outreach to dealing with public health communication through interactions with NIH and CDC. CBER will focus on communication and outreach activities to encourage and orient specific product development, using web based activities for more cost effective training.
Blood Program	\$1,051	\$500	9	2	CBER will increase internal coordination and public health activities to enhance efficiency and increase its collaboration with DHHS, CDC & NIH, to help take appropriate and efficient actions to address emerging threats to the blood supply, encourage development of diagnostic methods, issue critical and urgent standards and regulatory controls, and issue critical guidances. Recent successful interactions include those with CDC and industry to develop diagnostic tests and standards to screen blood donors for West Nile Virus, with plasma industry to develop technical standards for plasma-derived products, and, with AABB and the blood industry to respond to disasters and ET events. To assist in a rapid response, CBER will enhance the focus and efficiency of its involvement in the international arena including thorough information sharing, coordination and harmonization of product development, evaluation and quality standards and efforts. CBER will partner with others to provide needed samples, assays, standards and reagents.

Food and Drug Administration
Center for Biologics Evaluation and Research FY 2007 Strategic Redeployment
(In Thousands)

Program Areas	Redeployment Amount			Strategy
	BASE PROGRAM \$	AMOUNT REDEPLOYED \$	FTE BASE	FTE
Cell and Gene Therapy Program	\$2,099	\$603	18	2
Postmarket and Product Safety				
Research	\$4,205	\$1,100	36	5
International Harmonization	\$4,135	\$1,600	35	6
Total	\$24,859	\$7,568	212	30

For Meeting Public Health Commitment
Cell and gene therapies are rapidly evolving therapies with little precedent for the critical path to licensure. There are extremely promising products that are likely to come to clinical fruition in the near future, for example cord blood for malignancies and islet cells for diabetes. We will focus on reducing the number while increasing the quality and efficiency of meetings, including informal communications with academic and industry sponsors, workshops and communications as well as guidance development. We will focus workshops and outreach efforts on public health and safety issues, and on products that meet otherwise unmet needs and appear most promising. We will work increasingly with NIH and other stakeholders to leverage time and resources.

CBER will deal with its safety and compliance activities by acting on issues with public health risk and urgency. CBER will utilize information technology enhancements to improve post-marketing and manufacturing surveillance activities. To handle the offsets, we will deal with our safety and compliance activities by acting on all issues in order of risk and priority. Certain preventive and outreach activities will be deferred. We will limit the collection and analysis of some surveillance data and information (e.g. biological product deviation reports, recalls and their use to identify and track trends in quality and other reported manufacturing events). We will target our clinical trial and product development compliance activity operations to the highest priority, highest risk product areas.

CBER will leverage efforts with NIH, CDC and other stakeholders and concentrate its resources to facilitate the development, and assure the safety and effectiveness, of biological products having public health priority/need. In the areas of blood and blood products, vaccines, tissues and tissue engineering and cell and gene therapies. Increased use of public-private collaboration and critical path science investments offer the potential of increased leveraging of resources. Laboratory quality, mission management and IT systems increased testing will improve efficiency and quality.

CBER will concentrate its international activities on areas with the most direct public health, product availability, and quality impact through strategic positioning and focus, reducing overall resource use. CBER will work to enhance global product specific surveillance, information sharing, harmonization and intervention capacities for blood, vaccine and tissue products.

Food and Drug Administration
Center for Veterinary Medicine FY 2007 Strategic Redeployment
(In Thousands)

Program	FY2006 Enacted	Strategic Redeployment	Program Increases	FY2007
Center for Veterinary Medicine	\$54,739	\$1,469	\$6,446	\$59,716

To fund FY 2007 priority initiatives such as Pandemic Preparedness, FDA re-deployed resources from base programs.					
Program Areas	Redeployment Amount			Strategy	
	BASE PROGRAM \$	AMOUNT REDEPLOYED \$	FTE BASE	FTE	For Meeting Public Health Commitment
Plant Biotechnology Activities	\$192	\$192	1	1	CVM will no longer provide industry support for voluntary activities related to plant biotechnology and participation in organizations outside of FDA relating to plant biotechnology. CFSAN will assume responsibility for this program and maintain current efforts to protect the public health.
Milk Safety Activities	\$188	\$188	0	0	CVM will no longer participate in the milk drug residue activities in the Agency. CFSAN will assume responsibility for this program and maintain current efforts to protect the public health.
Research Activities	\$3,245	\$792	20	1	CVM will reduce research efforts to support approval of drugs for minor use/minor species. Instead of developing data for several fish species, CVM would limit the research to one or two species of most commercial interest. CVM will curtail the development and standardization of tests methods for antimicrobial susceptibility and drug residues and will collaborate with academic and EU government laboratories for support. CVM would reduce retail meat surveillance related activities and will collaborate with state public health laboratories for support.
GRAS (simplified notification system)	\$297	\$297	0	0	CVM will not implement the GRAS simplified notification system for use in deciding on the marketing of non-drug substances and products for use in animal feed. CVM will continue to use the current GRAS affirmation petition process.
Total	\$3,922	\$1,469	21	2	

Food and Drug Administration
National Center for Toxicological Research FY 2007 Strategic Redeployment
(in thousands)

Program		FY2006	Strategic	Program	
National Center for Toxicological Research		Enacted	Redeployment	Increases	FY2007
		\$40,740	\$7,033	\$533	\$34,240

Budget Authority Overview
(in Thousands)

Program		Amount		FY2007	
Office of Regulatory Affairs		\$492,438		\$504,029	
To fund FY 2007 priority initiatives such as Pandemic Preparedness, Food Defense, and Human Tissues Initiatives, FDA re-deployed resources from base programs.		\$11,442		\$33,013	
				Program Increases	
				\$33,013	
				Strategic	
				Reemployment	
				\$11,442	
				FY2008 Enacted	
				\$492,438	
				FY2007	
				\$504,029	
				Program Increases	
				\$33,013	
				Strategic	
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				Strategic	
				Reemployment	
				\$11,442	
				FY2008 Enacted	
				\$492,438	
				FY2007	
				\$504,0	

**Food and Drug Administration
Office of Regulatory Affairs FY 2007 Strategic Redeployment
(In Thousands)**

Program Areas	Redeployment Amount			Strategy	
	BASE PROGRAM \$	AMOUNT REDEPLOYED \$	FTE BASE	FTE	
Drug Product Surveillance - Domestic Drugs Program					For Meeting Public Health Commitment The redeployment of domestic sample analysis resources will not impact FDA's ability to protect the public health because ORA will target higher risk products by conducting selective sampling based upon product health hazard susceptibility and product threat level potential. We will continue to leverage with state governments via partnerships and contracts.
Drug Product Surveillance - Import Drugs Program	\$5,050	\$498	44.3	1.8	The redeployment of import sample analysis resources will not impact FDA's ability to protect the public health because ORA will target higher risk products by conducting selective sampling based on importer/country of origin, health hazard susceptibility, and threat level susceptibility of product.
Subtotal	\$8,071	\$277	70.8	1.0	
Field Animal Drugs and Feeds - Overall FY07 Strategic Redeployment	\$286,640	\$1,661	356	6.0	
NADA Pre-Approval Inspections Program and Bioresearch Monitoring Program					
Feed Manufacturing Program	\$2,109	\$210	18.5	1.0	The number of applications in this area never reached the level anticipated. Therefore, the 30 inspectional resources are being redirected without impact to public health protection.
Feed Contaminants Program	\$1,197	\$735	10.5	3.5	The redeployment of inspectional resources will not impact FDA's ability to protect the public health because ORA will target the highest risk medicated feed firms and products and will continue to leverage with state governments via partnerships and contracts in the feed manufacturing program area. ORA will not be reducing BSE coverage as a result of this redeployment.
Import Sample Analysis Program	\$2,348	\$53	20.6	0.3	The redeployment of domestic sample analysis resources will not impact FDA's ability to protect the public health because ORA will target higher risk products by conducting selective sampling based upon product health hazard susceptibility and product threat level potential. We will continue to leverage with state governments via partnerships and contracts in the feed contaminates program area.
Animal Drugs and Feed Research	\$5,221	\$210	45.8	1.0	The redeployment of import sample analysis resources will not impact FDA's ability to protect the public health because ORA will target higher risk products by conducting selective sampling based on importer/country of origin, health hazard susceptibility, and threat level susceptibility of product.
Subtotal	\$694	\$42	6	0.2	ORA is redeploying assets in the development of animal feed laboratory analytical methods to the development of methods validation.
	\$11,569	\$1,260	101	6	
Total FY07 Strategic Redeployment	\$421,543	\$11,442	1,504	48	

"Please note that the references to "compliance and recall functions involving food , human drugs, and animal drugs and feeds" on pages 47 and 261 of the FY2007 Budget Request are erroneous. There will be no redeployment involving this program.

Food and Drug Administration
Other Activities FY 2007 Strategic Redeployment
(In Thousands)

Program	FY 2006 Enacted	Strategic Redeployment	Program Increases	FY2007
Other Activities	\$86,905	\$5,497	\$6,828	\$88,236

To fund FY 2007 priority initiatives such as activities such as Pandemic Preparedness, Food Defense, and Drug Safety, the Other Activities program will reduce the number of the FTE through attrition, selective replacement of vacant positions, and other workforce restructuring strategies.

Program Areas	Redeployment Amount			Strategy	
	BASE PROGRAM \$	REDEPLOYED \$	FTE BASE	FTE	For Meeting Public Health Commitment
Other Activities ¹	\$86,905	\$5,497	546	19	Within the Other Activities account, we will continue efforts to consolidate programmatic functions and streamline operations to ensure that mission-critical functions continue effectively.
Total	\$86,905	\$5,497	546	19	

¹ The program will reduce the number of FTE through attrition, selective replacement of vacant positions, and other workforce restructuring strategies.

Senator VON ESCHENBACH. We have gone through the entire portfolio across the various centers and offices with the FDA, worked extensively with the staff within those offices to look for those opportunities and those efficiencies where we could leverage, synergize, and partner, and we will provide the detail for each of those particular parts of the portfolio for you.

PANDEMIC INFLUENZA

Senator BENNETT. All right. Thank you.

Last night, as I was watching television, which I don't often do—the news programs on television strike me as being more fictional than the sitcoms in many cases—running across the bottom of one of them was constant reference to Secretary Leavitt's warning with respect to pandemics.

And you discussed pandemic influenza preparedness at some length in your testimony, and we provided \$20 million for pandemic preparedness in fiscal 2006. Now you are asking for an additional \$30 million.

For those who do watch television and the streamer that runs across the bottom, could you discuss FDA's overall role in preparing for a pandemic and kind of tell us what you see in that whole area coming ahead for us?

Dr. VON ESCHENBACH. Thank you, Mr. Chairman.

I believe your question points out a very essential and critical element in our overall plan for a pandemic, and that particular element is the essential role that the FDA must play across a large portfolio of opportunity.

The role being to make certain that we are proactively helping to develop and to approve vaccines, antivirals and, devices that could be used for diagnostic purposes as well as devices that may have to be used ultimately with regard to human protection and support. And the important area that needs to be included in the portfolio, and that is the attention that needs to be paid to food animal.

In each of these areas, FDA plays and must continue to play a critically important role in that process. We are engaged, for example, in working proactively with companies in the industry to help stimulate the development of vaccines, to help them improve current vaccine production capabilities, including the utilization of cell-based techniques in addition to the traditional egg-based techniques that have been used.

Senator BENNETT. Let me interrupt you there quickly because I have been contacted by an American company that works on the issue of cell-based techniques as opposed to egg-based. And I want to call your attention to the fact that there are American companies that are in this field, and there has been concern raised about contracts being given overseas that are primarily to egg-based fixes, while there are American companies that complain that they are being overlooked.

And I would ask you to pay personal attention to that as we go forward because it has to do with volume.

Dr. VON ESCHENBACH. I certainly will continue to look into that, as will the rest of the agency, and pay very close attention to that. Because our commitment is to broaden the portfolio as widely as

possible to make as many opportunities and options available with regard to the development of new vaccines, specifically directed to H5N1.

With regard to antivirals, just as an example of the FDA's commitment, we are actively looking at opportunities to enhance shelf life of antivirals such as Tamiflu, which would significantly increase and enhance our abilities with regard to stockpile.

In devices, we work collaboratively with the CDC and recently approved in a very rapid period of time a diagnostic device, which can be used in processes of screening and looking for the first and earliest signs of H5N1.

And one of the areas I have pointed out which we needed to include into the FDA's commitment, and where a significant amount of the new funds are being directed, has to do with issues with regard to animal welfare, including the ability to regulate how animals will be used and making sure that we check and look for residue or traces of antivirals because we are concerned about the development of resistance in animals and humans.

But also should there be an outbreak or pandemic of avian flu within our bird population, the destruction of those food animals places the FDA in a critically important role with regard to regulating the processes of destruction and assuring that there is no contamination and risk for human health.

So it is a very broad portfolio, and we initiated after I arrived at FDA an integrated task force within FDA so that all these parts and pieces are now being coordinated and integrated into a cohesive effort so that FDA contributes appropriately to the larger initiative being carried out at the Department of Health and Human Services and in other agencies.

Senator BENNETT. Thank you very much. I would note that the company that contacted me is not located in Utah.

Senator Kohl.

Senator KOHL. Thank you, Mr. Chairman.

GENERIC DRUGS

Dr. von Eschenbach, the FDA plans to spend over \$400 million to approve approximately 88 new brand-name drugs and just \$65 million to approve over 400 new generic drugs in fiscal year 2007. There are currently over 800 generic drugs waiting to be reviewed at FDA, and the generics waiting list is expected to grow, as you know.

Now I understand the importance of reviewing and approving new drugs. They are often breakthroughs in the treatment of disease. However, according to the Congressional Budget Office, generic drugs on the market now save consumers an estimated \$8 billion to \$10 billion a year at retail pharmacies, and this doesn't include the money saved when they are used in hospitals.

As you know, they bring a big bang for the buck. And while the backlog continues to grow, your budget doesn't seem to make any effort to reduce that backlog. It seems that a relatively small increase, especially in relation to the money you spend to approve brand-name drugs, could make a big dent with respect to generics. How do you answer that?

Dr. VON ESCHENBACH. Thank you very much, Senator Kohl, for addressing what we believe is a very important and critical issue.

As you point out, we do want to continue to be sure that we are nurturing and supporting the innovative opportunities to continue to bring new solutions to patients, especially based on the progress that is being made in biomedical research and molecular medicine. At the same time, however, we are equally committed to being certain that we can provide access to patients to a wide portfolio of these drugs, including the availability of generics.

Over a period of time, we have a commitment to the generic program using all of the dollars that have been authorized for that purpose and have seen a continuous increase in the number of generics being approved each year. It is also true that the number of applications have also continued to increase.

We are attempting to address this problem in a variety of ways. First, we are giving priority to the first generic available. That is enabling us to assure that at least across the entire portfolio, Americans have access to one alternative to the innovator drug.

In fact, we believe that program has been successful, to the extent that we are approving first generics almost simultaneously with patent issues having been resolved. We have narrowed any gap between the legal barriers and the regulatory barriers making those drugs available to patients.

With regard to volume, we are at a point now where we are approving more than one generic drug on the average every day. Having said that, we also recognize the need for continuous improvement in the process, to continue to expand our ability to grow the portfolio to alleviate the backlog.

We are directing more people to the effort of the approval process. We are working with manufacturers to enhance the quality of their submissions in order to reduce cycle time to approval.

Most importantly, we are improving our own internal processes, especially by moving from paper-based regulatory approval processes to electronic based. And we believe this electronic infrastructure will be a significant step forward in enhancing the rapidity of our ability to process these applications and eliminate the backlog.

GENERIC DRUG BACKLOG

Senator KOHL. In spite of all of that, there are 800 generic drugs waiting to be reviewed and approved at the FDA, and that waiting list is expected to grow. So why don't we find a way, understanding how important these generic drugs are in helping people save money, why don't we find a way to more quickly address this backlog?

Do you see that as a high priority that you want to get at, or is it business as usual?

Dr. VON ESCHENBACH. No, sir.

Senator BENNETT. If I could just do the math? If they have 800, and they are doing one a day, and they don't work Saturdays and Sundays, that is about 3 years of backlog.

Senator KOHL. Thank you.

Dr. VON ESCHENBACH. Senator, let me approach the question in the following way. We are committed, as you are, to being able to expand the portfolio of access to various solutions for the American

people. And to do that, I believe really requires a process improvement. It is a way of looking at this entire continuum and looking for places in which we can improve cycle time, where we can improve the ability to move larger volumes of these applications more effectively through the system.

And as I indicated, the strategies that we are embarking upon are more people, more effective means of processing applications, including electronic submissions and electronic review, and working more collaboratively and proactively with the manufacturers of these generics in order for them to be able to enhance their applications and improve the application process.

We believe that by a multi-pronged effort, we will find incremental benefits along the entire process improvement continuum. The end result being more generic drugs coming, being made available to the American people.

Senator KOHL. Of course, you understand the American people want every generic drug that can be approved to be approved because it is an immediate tremendous saving in their pocket, right? And that is why we are here. That is a basic reason why we are here.

I just make that comment, and I turn it back to you, Mr. Chairman.

Senator BENNETT. Yes. I mean, a 3-year backlog, and you add in holidays, you get to 3.5.

Senator KOHL. Thank you again.

Dr. VON ESCHENBACH. Well, I think—

Senator BENNETT. That is more significant than I had realized.

Dr. VON ESCHENBACH. Well, I think one of the important things I would like to also emphasize—and apologize if I didn't make it as clear as I should have—is that in looking at the large volume of generics and what is available to the American people, we are looking at this in a hierarchical fashion.

First and foremost, we want to be sure that across the continuum of drugs that there is at least one generic available for any one of those particular drugs or solutions. Then there are follow-on generics after that or additional generics that are complementary or perhaps identical to that same generic.

Now the entire portfolio will always continue to grow, but there is a point where we believe that at least being sure that there are available drugs, generic drugs for every condition and in every situation and circumstance will be our first priority.

Senator BENNETT. So you are saying you are prioritizing them so that the generic that would benefit the greatest number of people will get moved up in the—

Dr. VON ESCHENBACH. Exactly, sir. In order to put the backlog into perspective, it would be one thing if we had a backlog in which there was an innovator drug for which there was no alternative generic. That would be a backlog that would have a critical impact on the health and welfare of the American people.

But if the backlog is one in which we already have three or four generics available for that particular drug, and there is a backlog of three or four other applications, that is going to get less priority in the hierarchical system.

Senator BENNETT. Well, I encourage you to continue to do that, and that is prudent management. But it would be helpful if the total number could come down and the total backlog could shrink a little.

CRITICAL PATH TO PERSONALIZED MEDICINE

Let me focus for a minute on your new initiative called the Critical Path to Personalized Medicine. That is an intriguing title, and this is obviously a long-term investment on your part.

Tell us what the ultimate goals are and how long you think it will take to achieve those goals. Or is this something that the goals will always be coming up, so this is a long-term program that will continue?

Dr. VON ESCHENBACH. Well, Mr. Chairman, I have benefitted greatly from my previous experience in being able to witness firsthand the tremendous progress that is being made in biomedical research and the literal explosion in our ability to understand diseases and even human health and nutrition from a genetic and molecular perspective.

And that discovery is really opening up for us the opportunity to develop new solutions, new products that are very different and unlike the products and solutions that we have seen in the past. We need a new bridge between that discovery to the delivery of those new solutions to patients, and that bridge of development is the bridge that the FDA is responsible for and is nurturing.

And it is the critical path from that discovery to that delivery that we are committed to by bringing to the regulatory process the science that has been involved in the discovery and the development of these new interventions and the science and technology that will be necessary in order to regulate and approve these new solutions and new products with regard to their safety and their efficacy.

So, in that context, with regard to that vision of what we are trying to accomplish, it will be an ongoing iterative process. We will continue to develop it as the science and technology continues to develop it.

But our goal is to make certain that these new solutions that we are experiencing by virtue of our investment in biomedical research at the NIH and in other areas will, in fact, translate into solutions that can and will be delivered rapidly, effectively, and safely to the American people.

Senator BENNETT. Well, one of the frustrations that I have had since I have been in the Senate is that almost none of the discussion about health care has anything to do with health. It is always focused on acute care or after the fact kind of care.

And if I hear correctly what you are saying, FDA is making a commitment for keeping people healthy prior to the time when they would need acute care and taking advantage of the science that is being developed at NIH and elsewhere.

And if we are successful and keep people healthy at the front end, we presumably save money at the back end. Is this a fair summary of what it is you are aiming for?

Dr. VON ESCHENBACH. It is an absolutely insightful summary, and I appreciate you framing it in that way. We believe that the

opportunities that are now available to us, the opportunities that the FDA can make possible for the American people, and for the rest of the world, by virtue of this critical path from discovery to delivery is the fact that medicine will be more preemptive or preventive.

We will have the tools to be able to understand the earliest stages in the development of many diseases and be able to then have products that will be able to be delivered to preempt that process. Being able to develop and regulate approval of those products will require a new FDA, the FDA of the 21st century.

And so, we will see cost benefits to that by moving out of a model that is predominantly focused on the treatment of established disease to a model in which we will have the solutions and tools to detect diseases much earlier in their development and then to be able to intervene and preempt them.

It will also be personalized. We are seeing increasingly opportunities to be able to define the right intervention for the right patient based on our understanding of these fundamental molecular mechanisms. And we are seeing new targeted drugs becoming available and coming to the FDA for regulatory approval.

If we get the right drug to the right patient, we eliminate the waste that occurs in the old system, the empiric system, where we are giving patients an intervention based on a statistical probability of success, but not knowing whether it will work in that patient or another patient. Just the fact that we can eliminate waste will have significant implications for our total expenditures in health care.

Senator BENNETT. I would like to pursue that with you in some detail because I think, ultimately, that is the only solution to our spiraling increase in Medicare and private health care costs.

Dr. VON ESCHENBACH. I would look forward to that, Senator.

Senator BENNETT. Yes. Senator Kohl.

GENERIC DRUGS

Senator KOHL. Thank you very much.

Just to add a final word on generics, you stated that you prioritized to be sure that we have at least a generic, if not two, available for every brand-name drug. I would like to ask my staff to work with your staff to satisfy me that, in fact, we are doing a good enough job in meeting at least that minimum kind of a condition which, as you point out, is very important, and I would agree.

Dr. VON ESCHENBACH. We would welcome that, Senator.

Senator KOHL. Thank you.

Dr. VON ESCHENBACH. And look forward to working with your staff.

AVIAN INFLUENZA

Senator KOHL. Dr. von Eschenbach, I was recently looking at some news reports on avian flu, and these two reports seemed to summarize, I think, what many people are feeling.

The first report quoted Dr. Gerberding of the CDC as saying that our current situation is not a good one. Secretary Johanns, on the other hand, was quoted that same day as stating that bird flu is coming to America, but he said that we are ready and "know how

to deal with it, and we will deal with it." And just last week, he testified to us that, "We are well prepared for bird flu."

It is understandable why many people are confused and uncertain and concerned about how to react. So from your perspective, are we prepared for a bird flu outbreak? How much vaccine do we have on hand now? And please talk about our ability to obtain or make more vaccine.

Dr. VON ESCHENBACH. Well, Senator—

Senator KOHL. Do you think we are well prepared?

Dr. VON ESCHENBACH. Pardon me, sir?

Senator KOHL. How would you summarize our situation with respect to the possibility of a bird flu outbreak?

Dr. VON ESCHENBACH. One of the things that I have appreciated is the fact that, as Secretary Leavitt has indicated, we are in a race. We are in a race with regard to our ability to mobilize and prepare all of the particular interventions and solutions that will be necessary to deal with an avian flu outbreak in humans.

And that race to prepare is in contrast to the race that the virus is engaged in with regard to its mutations. We don't know and can't predict exactly how long it may take for the virus to undergo the mutations that might be necessary for human-to-human transmission. We certainly have seen enough with regard to the virus to be alarmed and concerned that that ultimately might occur.

Having witnessed the mobilization that is occurring with regard to not only our own infrastructure within the United States, but around the world, I believe that we are engaged now in a very positive and very constructive and productive effort to bring all of the components to bear. As I indicated, the FDA is taking its role in a very integrated and comprehensive way to look across this continuum, to accelerate the ability to develop vaccines.

We cannot develop a vaccine for the human-to-human virus until that virus occurs, but we are developing vaccines for the H5N1 that has already occurred. And we are also developing seed strains so that we have in place variations of the virus so that we would be already prepared to move to the next step to mass production of vaccines once we got the right match.

So I use that as an example to point out that it is a problem that requires a comprehensive, integrated, collaborative solution. It is one in which we will look across the wide portfolio of interventions, and it will go beyond just vaccines to also include, as I have indicated before, antivirals, and diagnostic devices.

Senator KOHL. But just last week, the United Nations stated that bird flu could arrive in the United States between 6 and 12 months from now, which is imminent. So if these predictions are correct, the virus could arrive in the United States before we have the capability to make mass quantities of vaccines.

What advice do you have for people all across our country who are concerned about this imminence, this possibility within 6 to 12 months?

Dr. VON ESCHENBACH. Well, I think, as Secretary Leavitt has indicated, we need to be aware of the threat. We need to not panic, but we need to prepare in the sense of anticipating and being aware of the fact that this is a threat that could strike us.

It has not happened at this point in the sense of having the avian form of the disease in the United States, but that is expected to occur. It has not happened with regard to a strain that has human-to-human transmission capabilities.

But I think as far as the public is concerned, the continued support of the efforts that are being made across the public health continuum—not only in the Department of Health and Human Services, but throughout the rest of the academic world and in conjunctions with WHO—as you pointed out, I think it is a commitment to prepare and to prepare as rapidly as possible is the most important contribution we could make at this point.

Senator KOHL. Thank you, Mr. Chairman.

Senator BENNETT. Senator Harkin.

BOVINE SPONGIFORM ENCEPHALOPATHY

Senator HARKIN. Thank you very much, Mr. Chairman. And I apologize for being late. We had an authorizing committee hearing prior to this, not the appropriations.

But I thank you, Mr. Chairman, and welcome our witnesses here, especially Dr. von Eschenbach, whom I have worked with a great deal at NIH over the years.

I will get right to the point. Maybe this has been asked before, but I don't know if anything has been brought up about the recent case of BSE that was just discovered in Alabama.

Senator BENNETT. It hasn't been asked. So go ahead.

Senator HARKIN. Thanks, Mr. Chairman.

Well, as you know, it is in the press now that it was confirmed that we have another animal, a 10-year-old cow in Alabama tested positive for BSE, and now they are looking at the herd and the feed and everything else to try to figure out if there were other animals contaminated or where this contamination may have come from.

Now FDA recently proposed several changes to the feed ban rule that it first adopted in 1997. The main adjustment proposed is that brain and spinal cord from cattle would be banned from all animal feed, not just from cattle feed, okay? So far, so good.

However, the loophole that currently exists of allowing poultry litter—yes, you heard me right—poultry litter to be fed to cattle would continue.

So we have a situation where you can take some of the SRMs, specified risk material, from cattle, a ruminant animal, feed it to chicken. Some of that gets into the litter. The litter is then fed to a ruminant animal. The prions exist, and they may exist in the SRMs from the slaughtered, go into chicken feed, fall into the litter, and be fed back to a ruminant animal.

Canada is in the process of strengthening its feed ban rule to prohibit all, all specified risk materials from all animal feed, including pet food. That is, Canada is going beyond just the brain and spinal column. Canada has already banned poultry litter and plate waste from cattle feed.

Now FDA clearly acknowledges that the main cause of BSE in cattle is from contaminated feed. In fact, the feed rules are routinely cited by USDA and FDA officials as our first line of defense against BSE. But in this case, FDA, with these new proposed rules,

appears to be preparing to come out with a weaker feed rule than Canada, weaker than has been called for by experts on BSE.

In other words, it would still be permissible to feed cattle byproducts with a high risk of BSE back to cattle through poultry litter. Now, again, I don't know what the reasons for allowing that are, but I am just wondering with this proposed rule, FDA proposed rule, FDA will only prohibit a partial list of SRMs from all animal feed, a partial list.

In addition, FDA is not closing the loophole that currently exists by allowing poultry litter to be fed to cattle. This leaves a clear circle of transmission wide open, where the SRMs that are not prohibited by the proposed rule could be fed to poultry, and then the poultry litter fed back to cattle. How does the FDA justify not closing the poultry litter loophole?

Dr. VON ESCHENBACH. Senator, let me first begin by saying I appreciate the question and thank you for it because it is addressing an issue that, as you pointed out, with the recent awareness in the press of another cow being detected with BSE, it has raised concerns. And it is important that we address them.

The feed ban that was put in place in 1997 was done in a way to be able to ban high-risk materials and to be able to over a period of time, continue to monitor and inspect and be sure that processes were being appropriately applied. So FDA has been working closely with USDA. As it has been responsible for the issues with regard to cattle, FDA has been approaching the issues with regard to animal feed.

Throughout that period of time, and as you have pointed out, the processes that we put in place have, as we have gone through looked for compliance with regard to the processes, we have found in all the inspections over 99 percent compliance with the rules. And during that period of time, over 800,000—or at least at this point with regard to 650,000 high-risk animals that the FDA has identified, there have only been 2 cases of BSE, and those 2 cases have been in animals that were born before the feed ban was put in place.

Now I emphasize that because I think it is important to point out that the processes that have been in place since 1997 have had a high degree of compliance, and in fact, the risk of BSE in the cattle population at this point in time has only involved 2 animals, and both those animals were born before this ban was put in place.

Having said that, as you have pointed out, the FDA recently went a step further to further strengthen the feed ban rule and put in additional bans, as you have indicated.

Now with regard to the specifics of the transmission of BSE in prions in the droppings from poultry, if I could permit—with your permission—to have Steve Sundlof, the head of our Center for Veterinary Medicine, who is responsible for this area, he may be able to give you a much more precise scientific answer with regard to the risk of that particular aspect of possible transmission of BSE.

POULTRY LITTER AND BSE TRANSMISSION

Senator HARKIN. It is up to the Chairman.

Senator BENNETT. We could follow up.

Senator HARKIN. It is up to the Chairman. Yes, that is fine.

Senator BENNETT. Do you want to follow up quickly?

Senator HARKIN. If that would be okay with you, Mr. Chairman?

Senator BENNETT. Sure. Go ahead.

Mr. SUNDLOF. Thank you, Senator Harkin.

I am Steve Sundlof, the Director of the FDA Center for Veterinary Medicine, and it is my center that regulates the safety of all animal feeds, including pet foods.

To get to your precise question regarding poultry litter, first of all, we have evaluated the potential risk of poultry litter to spread BSE among cattle, and we find that to be very low for a number of reasons. First of all, the amount of animal protein in that poultry litter is very small. Secondly, it comprises a small part of the cattle diet. Thirdly, when we put it through some of our risk assessment models, it appears that that risk presently, as the rule is written, represents an extremely low risk.

By proposing that all brains and spinal cords from cattle over the age of 30 months be eliminated from all animal feeds, you have taken 90 percent of whatever remaining infectivity there exists out there, and you have taken that out of any poultry diet. So now with the new proposed rule, you have actually reduced any potential risk from poultry litter by another 90 percent.

And again, that is 90 percent of a very, very small risk to begin with. And so, the proposal really addresses a lot of the issues that remain around poultry litter.

Senator HARKIN. Is it possible, Mr. Sundlof, is it possible for the prions to come from a ruminant animal that actually might be fed to poultry or drop in the litter, and that litter could then possibly be fed back to a ruminant animal?

Mr. SUNDLOF. It is possible, but the amount that would be—first of all, if you take the brain and spinal cord out, you have eliminated 90 percent of whatever infectivity could go into that.

Senator HARKIN. I understand. I understand that.

Mr. SUNDLOF. But the amount of animal protein that is in the litter is very, very small. Now, you know, we don't say, we never can say that the risk is absolutely zero. And so, to answer your question, yes, it is possible. But the probability of that occurring is very, very remote.

Senator HARKIN. Well, now, Canada has already banned poultry litter, right, from being fed?

Mr. SUNDLOF. That is true.

Senator HARKIN. That is true in Europe, too?

Mr. SUNDLOF. Yes.

Senator HARKIN. It is true around the rest of the world as far as I know. And my question, I guess you just raised this question in my mind, if poultry litter is so low in protein, why are they feeding it?

Senator BENNETT. Yes, that was the question I have. If it is so small, what does poultry litter bring to the table?

Mr. SUNDLOF. Well, a little cattle physiology here. Cattle are able to convert non-protein materials like cellulose, in terms of grass, actually into protein. So a large part of cattle diet is made up of material that is very low in protein, but in the rumen of the cattle, the microorganisms actually make protein, which then the cattle digest.

So in terms of why Canada and Europe and other countries don't feed poultry litter has to do more with the demographics. In the South, especially in the southeastern United States, cattle are raised on open land. They are raised in areas where there is a lot of poultry production in addition to cattle production.

Poultry litter becomes an issue. The poultry industry has to get rid of this product somehow. They can either spread it onto the land and use it for fertilizer. But in general, there is more than can be disposed of by that method. It does have a fairly high nutritional value for cattle. It is something that, strangely enough, cattle seem to like to eat. And those conditions really don't occur in other parts of this country and especially in Canada and Europe.

Senator HARKIN. Well, again, since everyone else has banned it, it seems like we are always looking for ways to somehow get around banning the elements, all SRMs, not just the high risk, but all SRMs from getting back into ruminant feed. There are ways we can do that. Other countries have done it.

BSE RULE AND HARMONIZATION WITH CANADA

Now I am told, Mr. Chairman, I am told that some FDA people told my staff they were working with Canada to make its rules similar to the United States. In other words, FDA is working, hoping to see that Canada weakens its rule to match that of the United States. Is that so? Are we working to try to get Canada to weaken its rule?

Dr. VON ESCHENBACH. We are exploring harmonization efforts with Canada.

Senator HARKIN. Now what does that mean?

Dr. VON ESCHENBACH. Well, that means that we are exploring whether or not, you know, this is a proposal—

Senator HARKIN. Are we exploring to get to their level or get them to our level?

Dr. VON ESCHENBACH. Well, we are holding discussions where we are looking at their assumptions behind their risk models compared to our risk models. And if we find that their risk models are a better reflection than what we have developed, then we would be willing to adjust our rule.

But also we are just in the discussion phases now, where we are sitting down and examining the assumptions that went into each of our rules to determine whether or not those are valid in our particular countries, and there may be. And in the case with Canada, there may be some valid reasons why they should be different.

Senator HARKIN. Mr. Chairman, you have given me more than enough time. I do have some follow-up questions on the next round.

Senator BENNETT. Surely. We will have another round.

Dr. von Eschenbach—and thank you, sir, for your expertise. You told me more about chicken litter than I probably wanted to know.

MEDICAL DEVICE USER FEES

One of the things that I have been interested in since I have had this assignment in the Senate has been user fees and particularly medical device user fees. I found that FDA was delighted to have the extra money from the user fees, which were being paid some-

what reluctantly on the part of the users, but paid in an effort to increase the performance and lower the backlog of approvals.

And there was a period when FDA simply took the money and then took the appropriated money that would have gone into improving performance and spent it someplace else. And I have been a bit of a nag on that issue and got an agreement out of OMB that that sort of thing would stop, that the user fees would, in fact, be matched with appropriated funds, and the two would be coupled rather than one becoming the replacement for the other. It is only fair that that be the case.

Could you bring us up to date on where we are with performance out of MDUFMA? Now I have a copy of the answer that was given in the House with respect to this, and that is part of the transcript now of the House hearing. And I find that useful, but give you the opportunity to comment in general terms as to where we are with respect to greater performance in the medical device area and other areas where user fees are being paid in an effort to make sure that things move more rapidly.

Dr. VON ESCHENBACH. Well, Senator, as I have come to understand it and appreciate it, with regard to MDUFMA, or the medical devices user fees, that particular program has not had as long a history of experience and process improvement as has PDUFA with regard to the experience at FDA. And obviously, with medical devices, that introduces its own set of complexities with regard to the review process.

Having said that, as MDUFMA has been implemented at the FDA, in most cases, there has been a full compliance with regard to the targets or the milestones that were put in place. But at the same time, it is also true that it has not been the case uniformly across the entire board and, in fact, in looking at even where we have met those milestones, the incremental improvement in terms of really being able to significantly reduce cycle time and streamline and accelerate the time to market is not to the degree that even we would be happy with and comfortable with.

So we are looking at this from the point of view of process improvement. We are looking at it and working collaboratively and cooperatively with the industry in order to be able to continue to find ways to accelerate the process and make it more effective.

We think there are opportunities to work with the industry, for example, with the preparation of their applications in a way that will help us proactively and prospectively be able to do that by greater consultations. We have noticed with regard to PDUFA that that opportunity for consultations before the application process has proven to be something highly attractive and very positive with regard to their experience.

So we are looking at this. As you have pointed out, these dollars will be focused and targeted for a specific purpose, and that will remain so. And we will look to continue to improve the process.

Senator BENNETT. Thank you. I don't want user fees to become general taxes that just go into the general fund and then may or may not be producing the result for which people are paying extra.

Senator Kohl.

FIELD INSPECTORS

Senator KOHL. Thank you, Mr. Chairman.

Dr. von Eschenbach, looking at your budget, it states that your field force of inspectors is going to decrease by some 48 to 60 people. It also says in your budget in the very same section that the number of FDA-regulated imported products requiring inspection is increasing exponentially.

Some of the other examples of activities that won't be performed as often by these inspectors, as I said, the analysis of imported and also domestic samples of food, inspections of veterinary feed manufacturers, inspections of human drug manufacturers, compliance and recall functions, including food, drugs, and animal drugs and feeds.

How do you justify cutting field inspectors right now when the requirement for them seems to be going up and not down? Do you really believe that this is the best place for you to be trying to save money?

Dr. VON ESCHENBACH. What we are attempting to do, Senator, is to look at this again—as I have indicated in an answer to a previous question—as a process improvement issue. In looking at the total portfolio of activities and asking questions, where can we streamline? Where can we make this more efficient so that we are getting more outputs vis-a-vis the resources that we have to utilize to do that, including the human resources and the number of people that are involved?

We think that there are opportunities to continue to improve the process. By, for example, focusing on preapproval inspections, working with manufacturers, working with regard to good manufacturing practice requirements, we can improve some of the processes and opportunities with regard to a proactive approach.

We are targeting inspections to areas of high risk so that we are utilizing the workforce in a more efficient, more targeted way so that we are focusing on the areas where we see the highest concerns or the highest risks as opposed to simply disseminating those resources with less impact.

So it is a process improvement problem. Looking at modern technologies that will enable us to enhance the ability to utilize the inspection process is another way we think we can continuously get more outputs, meet our responsibilities, but do that in a way that is efficient in the use of the human resources that we have so that we are deploying those where we see areas of higher public health need.

DRUG SAFETY OVERSIGHT BOARD

Senator KOHL. All right. Dr. von Eschenbach, your budget talks about the creation last year of an independent Drug Safety Oversight Board to oversee the management of important drug safety issues.

A quote from Secretary Leavitt regarding this board says, "The public has spoken. They want more oversight and more openness. We will address their concerns by cultivating openness and enhanced independence." That is his quote.

And yet the FDA has received criticism because the board now has no public representatives, meets in private, and publishes only vague summaries regarding what is discussed in these meetings. So how do you respond to these criticisms?

The board may be independent, but is it really transparent when the only members are from the FDA and other Government agencies and reports are so vague?

Dr. VON ESCHENBACH. Senator, this is an important area, obviously, with regard to our commitment to drug safety. And the Drug Safety Oversight Board, as you point out, does go beyond FDA, and it does include other Federal employees from the National Institutes of Health and from the Veterans Administration.

That provides us a couple of opportunities. One, it does broaden the input. It does enhance the expertise that is involved in this oversight review, and it does take it outside the walls of the FDA so that it is subject to a larger and more, if you will, independent analysis and review by individuals who are not part of the agency and not part of the FDA internal process.

The very fact that they are Government employees, however, provides a great deal of efficiency in the terms of which this board is able to function. First of all, it enables us to avoid some of the potential problems and barriers in timeliness that would come from having to have to resolve conflict of interest issues or problems should this be outside of the Government.

It allows us to deal with confidential proprietary information within the confines and constraints of the committee so that we are looking at data and information that is much more sensitive and, therefore, has the potential to be much more important and insightful with regard to the safety issues.

So we believe that it is a balance and a balance between a process that is framed within the rules and regulations of FOIA, the rules and regulations with regard to conflict of interest, while at the same time, it is broadening the input beyond the FDA and assuring that we have the right expertise of individuals who will be able to improve the oversight of these drug safety issues.

OPENNESS OF DRUG SAFETY OVERSIGHT BOARD

Senator KOHL. Well, Secretary Leavitt said that he wants to see more openness, more independence, and that he would take steps to improve that. Now if you meet in private, if the members are not public representatives, and if the reports that emanate from your meetings are not specific, what kind of openness is that?

Dr. VON ESCHENBACH. Well, I think there can be a great deal of attention paid to the openness and transparency of the process and the rules and regulations that frame how an oversight is being conducted. But the issues with regard to what is occurring in the internal discussions dealing with proprietary information, that in itself needs to continue to be protected or we won't be able to get the right information that we need to analyze and assess.

So I think it is a balance, and it is an interplay between a process that is well defined, open, and, if you will, perhaps more precisely is transparent in terms of how it is being conducted with the rules that govern and frame how things are being done.

But then the discussions occur within the context of the confidentiality that is required in order to protect proprietary interests and information that is not appropriate to disclose in a public venue. And the committee has been vigilant and active in its effort. There have been five meetings in 2005 looking at 17 different products.

So it is active. It is engaged. It is an ongoing effort, and I think it is a process of balance between making sure that there is an additional layer of oversight, but one that is still being conducted within the constraints and confines of what the law and the regulatory process makes possible.

Senator KOHL. Thank you, Mr. Chairman.

Senator BENNETT. Senator Harkin.

BOVINE SPONGIFORM ENCEPHALOPATHY

Senator HARKIN. Thank you, Mr. Chairman. Just one last follow-up on the BSE.

I understand that FDA is going with the weaker rule because they are concerned about the costs of a stronger rule. Well, we can't ignore cost, but consider the cost that our country is bearing in lost export markets already because of that. Or consider the potential cost if consumers lose confidence in eating beef.

I mean, you can argue about science and risk, but some things just make common sense. I mean, how many people know that cattle are fed chicken litter? Now that is not just the straw and the bedding, that is fecal matter. They are eating chicken feces, okay? And they are eating a lot of stuff that could fall into that litter that could be parts from SRMs that are fed a lot to poultry, a lot.

And since other countries have banned it, I don't know why we are so reluctant to do that. Ask anybody even in this audience, how many, if you had a choice between hamburger from a cow that never ate fecal matter or one that did, what do you think you would get? It makes common sense.

And my big concern is that with this recent case of BSE, obviously, I have an interest in this because I represent a lot of cattle feeders. I represent cattle people, and they are concerned about the loss of confidence that may happen if more of these problems start popping up.

You may hear from the other side or some other side about this. But it seems to me that a big part of the problem that we have right now is that both FDA and USDA are telling the public that the feed rules are a firewall, a true safeguard. But now what I am hearing is you are saying that the feed rules are based on probabilities, 90 percent here, 90 percent there. You know, probabilities.

Well, so what we are hearing, the rhetoric and the facts don't match. And I am just, again, concerned that we don't move ahead more aggressively to prohibit all SRMs, not just the high risk, all SRMs from all animal feed, including poultry, and to eliminate, finally get over that hurdle of plate waste.

I can't believe we still permit plate waste in this country going into ruminant animals. Most other countries don't, but we still permit it. So, again, that is all I have to say on that.

FOOD AND NUTRITION FTE

A couple of other things, Dr. von Eschenbach. Is it true that in this budget that there are somewhere between 50 and 80 FTEs that will be taken away or transferred out of the food safety and nutrition area? Am I wrong in that?

Are there any at all in this budget, are there FTEs being cut in food and nutrition?

Dr. VON ESCHENBACH. With regard to the area of food and nutrition, Senator, we are looking at redeploying activities within that area and synergizing and partnering in order to be able to meet the necessary commitments that we have within the budget. But do that in a way that is more efficient and more effective.

We are looking at opportunities, for example, where mechanisms with regard to our management of personnel and opportunities for early buyout will enable us to reduce the cost of our workforce without necessarily reducing the number of FTEs. I would have to—

Senator HARKIN. Okay. Are there any in the budget? That is all I want to know. In this budget before us, is there a reduction in full-time equivalents in food and nutrition?

Dr. VON ESCHENBACH. I will have to give you for the record the specific—

Senator HARKIN. Okay. If you don't know, then if you could get back to us, I would sure appreciate it.

Dr. VON ESCHENBACH [continuing]. FTE reductions. But as I indicated to a prior question, I want to reassure the committee that whatever reductions and whatever redeployments are made in resources, we are doing that in a way that it has not compromised the commitment to public health and to safety.

Senator HARKIN. I appreciate that.

[The information follows:]

FOOD AND NUTRITION FTE

The strategic redeployment will be offsetting the requested increases in fiscal year 2007 for critical, high priority initiatives such as Pandemic Preparedness and Food Defense. This would be a change in FTE levels of -64 for Center for Food Safety and Applied Nutrition and -22 in Food related Field activities.

The redeployment of the FTE in Center for Food Safety and Applied Nutrition will be made from programs such as food additives and food contact substances, research, cosmetics, dietary supplements, outreach and regulatory activities. The redeployment of the Food related Field FTE will be made in areas such as the collection and analysis of domestic and import food samples and in the management, supervision, and coordination of personnel at multiple locations.

DIETARY HEALTH SUPPLEMENTS EDUCATION ACT

Good manufacturing practices. Senator Hatch, the other Senator from Utah, and I 12 years ago joined forces. We got a bill passed called DSHEA, the Dietary Supplement Health and Education Act.

At that time, we put a provision in the law that mandates that FDA is supposed to come with good manufacturing practices, GMPs we called them. About every 2 years since that, we have been told that FDA is going to come up with good manufacturing practices, going to come up with the regulations. This persisted in the 1990s. It has persisted since then.

Twelve years later, we still don't have good manufacturing practices regulations. The industry is crying out for this. The public needs it. It will tend to get some of the bad actors and those that might be out there out of the business. It will set up good standards. And here I am told again, "very soon."

Can you give us your personal assurance that you will work with OMB to get the GMPs published, and can you give us any definitive date?

Dr. VON ESCHENBACH. Thank you, Senator. And we are, along with you, committed to continuing to the full implementation of DSHEA and meeting the requirements that have been involved in that important law.

With regard to the dietary supplement GMP, as you have indicated, it is at OMB. The staff of CFSAN have been working directly with them with regard to addressing any particular issues with regard to that GMP being finally issued.

I will continue to commit to you and ensure you that FDA will do everything that is needed and required to work with OMB to bring that about as rapidly as possible. I understand that it is—

Senator HARKIN. It is frustrating.

Dr. VON ESCHENBACH [continuing]. Imminent. But—

Senator HARKIN. It is frustrating. Dr. Crawford, when he was before the help committee last year, said—he assured us that the GMPs for dietary supplements will be published in the Federal Register within months. Still hasn't happened.

Senator BENNETT. Depends on your definition of "months."

Senator HARKIN. Okay. Well, I suppose if you meant a lot of months, yes.

Dr. VON ESCHENBACH. I have looked into this, Senator, and I can tell you that it is in process and in progress. I am led to believe and understand that the issues are being and have been addressed.

Senator HARKIN. Can you give us any idea, can we see something happening here in the next 30, 60, 90 days? Anything at all that we can hold you accountable for?

Dr. VON ESCHENBACH. Please hold me accountable for working with the OMB in an effort to make this come forward as you have requested.

Senator HARKIN. I won't press the issue further.

I just have one last question. I will wait until my next round. Thank you.

Senator BENNETT. Thank you.

The experience of working with OMB is one that I have had, and it was an administration 30 years ago or longer, I guess. But I don't think OMB has changed that much, and it is very difficult many times.

And I have been in the position of being a witness where I know what I want to say, but OMB has told me what I can say. So I think Dr. von Eschenbach's commitment is probably the only one he can make under these circumstances.

UNIFIED FINANCIAL MANAGEMENT SYSTEM

Unified Financial Management System. This is a project initiated in 2001 to integrate several financial management systems across the department. I am assuming we are talking IT here, all right?

Dr. VON ESCHENBACH. Financial management, yes, sir.

Senator BENNETT. Everyone has experience with IT programs that start out with great hope and anticipation and then end up being over budget and behind time. Originally, FDA's share of the total project through fiscal 2007 was estimated at \$36.5 million. This subcommittee has provided more than \$50 million over the last 5 years, and your budget requests an additional \$1.2 million.

These are not large sums, but it is my understanding that annual costs for the system were supposed to level off and go down after fiscal 2005. This has not been the case. Since 2004, annual costs have gone up roughly 37 percent.

Can you give us any kind of light at the end of this tunnel as to where we are going and what kind of progress we have been making?

Dr. VON ESCHENBACH. I would be happy to, Senator, and I also, with your permission, will call Kathy Heuer, who is the head of our Office of Finance and Management, to provide additional details.

As I have understood and appreciated the process, FDA is contributing its appropriate share to the larger HHS effort with regard to the UFMS initiative, and it has, in fact, undergone an activation period of time with activation costs for contractor support, training, vendor support for new tools and licenses, and a need to continue to stabilize the process with regard to its utilization.

We are anticipating and expecting that those activation costs will come to an end through the year 2007 and into early 2008, which will bring us then into a level of cost reductions and cost savings, in fact, with regard to once we have implemented the system fully.

So that is my expectation and anticipation of the process and how it will unfold. Kathy, if you would add to that?

Ms. HEUER. Thank you, Senator.

UFMS will be the largest financial management system on the civilian side of the Federal Government when fully implemented. It is a way to consolidate financial management across Health and Human Services, allowing for better integration of information, comparability of information, and sounder management decisions based on easier access to data.

The cost increase you reflected in terms of 2005, 2005 is the year that we implemented UFMS. We went live in April 2005. The original budget projections did not include operations and maintenance projections. Those are about \$3 million per year.

We have a consolidated operations and maintenance structure with the department. So that is something that we have to pay in addition. Those were not part of the original estimates in terms of the budget.

The original estimate in terms of the budget was just the project development, and that is why there is that increase, as you mentioned, the 37 percent going up because that was not included. Originally, it was just development. But now the operations and maintenance is on top of that.

As Dr. von Eschenbach said, when UFMS is fully developed into 2008, then the development costs will be eliminated, and our ongoing costs will just be the operations and maintenance costs.

Senator BENNETT. Thank you. I wish you well.

Ms. HEUER. Thank you.

Senator BENNETT. Senator Kohl.

Senator KOHL. Thank you, Mr. Chairman. I have finished my questioning. I will defer to Senator Harkin.

Senator BENNETT. Senator Harkin.

STRATEGIC REDEPLOYMENT

Senator HARKIN. Mr. Chairman, just one last thing. And again, Dr. von Eschenbach, you are going to get back to us on these FTEs?

Dr. VON ESCHENBACH. Yes, sir.

Senator HARKIN. The question I asked, I had information that in the budget there is a cut in FTEs in food and nutrition?

Dr. VON ESCHENBACH. Senator, I am looking forward to presenting to the entire committee for the record a detailed explanation—

Senator HARKIN. Okay.

Dr. VON ESCHENBACH [continuing]. Of the redeployment strategy across all of the centers and offices within FDA. So that it will define what the programmatic shifts are in those programs, along with what the FTE changes will be. And we will give that to you not only with regard to CFSAN, but with regard to the entire portfolio so that you will have that with regard to answering your question.

GELATIN CAPSULES FOR DIETARY SUPPLEMENTS

Senator HARKIN. Okay. My last question has to do with U.S. companies that want to export dietary supplements with gelatin capsules to Europe are first required to obtain a health certificate from the Food and Drug Administration, required to do so by the European Union.

Now I wrote you a letter about this on February 28. I don't expect you to have replied. That is a short time ago. But I wrote you a letter about this on February 28.

Now as I understand it, the EU requires U.S. companies to get a health certificate from FDA's Center for Food Safety and Nutrition. But according to the exporters that have talked to me, the EU does not require these certificates for pharmaceutical companies that are using the same gelatin capsules to export pharmaceuticals. But if you have a dietary supplement, same gelatin capsule, they require the FDA to give a health certificate.

Well, I am told that the FDA does not issue such certificates. I don't know if that is so or not, but do you have any—I don't want to catch you flat-footed on this, but I am told that FDA does not issue them. So they are kind of caught.

The EU says they have got to have a health certificate, and yet FDA says they don't issue those. So—

Dr. VON ESCHENBACH. Senator, I cannot give you the specific details in answer to that question. I would be happy to do that for the record or have one of the FDA staff that would be responsible for that respond.

Senator HARKIN. Well, please have your staff, and you personally, take a look at the letter I wrote you on February 28. My staff will give you a copy here. I understand how those things go. But take a look at that because it is a big issue.

Because it is the same gelatin capsule that pharmaceutical companies use. They order them from the same place, but the EU has rules that say you can't without a health certificate.

So, they are sort of caught in a bind here. I need to find out about that and what we can do to help them overcome this trade barrier.

Dr. VON ESCHENBACH. I will look into that for you, Senator.

Senator HARKIN. I appreciate that very much.

Thank you, Mr. Chairman.

[The information follows:]

HEALTH CERTIFICATES FOR GELATIN CAPSULES

FDA issues a certificate, sometimes called a health certificate, for bulk gelatin for human consumption exported to the European Union, also known as EU. In the certificate, FDA certifies compliance with relevant U.S. standards, which have been recognized for this purpose as equivalent to EU requirements for foods including dietary supplements. The EU requires the certificate include affirmations from the manufacturer and periodic state inspections confirming the gelatin is produced in accordance with U.S. standards, the gelatin meets certain criteria, and that raw materials are appropriately sourced.

The EU legislation separates requirements for foods and requirements for pharmaceuticals. However, to date it is only the United Kingdom, in its implementation of EU legislation, has stopped shipment of gelatin capsules containing dietary supplements. It is our understanding that our EU counterparts are trying to resolve the situation since the gelatin used in human food is, in most cases, identical to the gelatin used for pharmaceuticals.

ADDITIONAL COMMITTEE QUESTIONS

Senator BENNETT. Thank you.

Dr. von Eschenbach, we appreciate your attention to all of these questions and you and your staff's response to what our concerns are.

Dr. VON ESCHENBACH. Thank you, Mr. Chairman. And may I express to you and to the committee our gratitude, as I indicated at the very beginning, for your support.

I would also like to express personally, for however long I have the privilege to serve in this role, that both myself and the staff of the leadership of the FDA would look forward to an ongoing conversation and relationship about many of the important issues that you raise. Not simply at a time, for example, when we are requesting a budget appropriation, but in an ongoing basis.

We intend to be responsive and timely to requests that are provided to us by mail, but I look forward to that opportunity in person as well. And I know that that is reflected by the talented and wonderful people who are sitting behind me, who are the content experts that are at your disposal.

Thank you, sir.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

MEDICAL DEVICE USER FEE AND MODERNIZATION ACT (MDUFMA)

Question. Please provide, for the record, specific information regarding FDA performance in each of the medical device user fee goal areas.

Answer. Secretary Thompson's November 2002 letter to Congress, also known as the FDA commitment letter, defines the performance objectives FDA is pursuing

under the Medical Device User Fee Act, or MDUFMA. The commitment letter defines a comprehensive set of challenging goals and a schedule for meeting the goals.

To allow FDA time to build its capacity to meet the ultimate goals set by MDUFMA for fiscal year 2007, the commitment letter provides for a phased implementation of goals, with the addition of more goals and higher performance expectations each year. In fiscal year 2005, 18 additional goals went into effect, with two exclusively for the Center for Biologics, Evaluation and Research, also known as CBER. Six additional goals go into effect in fiscal year 2006. In fiscal year 2007, FDA will be responsible for a total of 77 quantitative goals covering five receipt cohorts. FDA is expected to pursue eight additional nonquantifiable commitments, such as developing an appropriate bundling policy, continuing our efforts to develop mechanisms for the electronic receipt and review of applications, and improving the scheduling and timeliness of preapproval inspections.

Although we do not expect to meet every goal specified by MDUFMA, the trends are promising. Since some goals involve so few applications that missing the review time frame for a single application by a single day can result in "failure" to meet a MDUFMA goal. We are, in general, showing better performance as we implement new policies and procedures designed to improve the timeliness of our review processes. Although it is too soon to know what our final performance statistics will show, since many goals still have applications that remain open, our performance on applications within more recent receipt cohorts is better than our performance within older cohorts. If you had taken a snapshot of performance for the fiscal year 2003, fiscal year 2004, and fiscal year 2005 receipt cohorts on December 31, 2005, you would see that FDA is meeting or exceeding 19 of the 24 goals in effect, and is not meeting only two goals. No applications have qualified for the remaining three goals.

We are confident that MDUFMA is producing positive results for FDA, for industry, and—of critical and highest importance—for patients and health care professionals.

I would be happy to provide FDA's performance report for fiscal year 2004 for the record. We will forward our fiscal year 2005 report when it is complete.

[The information follows:]



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Food and Drug Administration
Rockville MD 20857

December 16, 2004

TO: The Secretary
Through: DS _____
COS _____
ES _____

FROM: The Acting Commissioner of Food and Drugs

SUBJECT: Annual Performance Report to Congress Required by the Medical Device
User Fee and Modernization Act (MDUFMA)

BACKGROUND

Attached for your consideration is the annual performance report to Congress required by MDUFMA. MDUFMA amends the Federal Food, Drug, and Cosmetic Act to authorize FDA to collect user fees from manufacturers who submit certain applications to market medical devices. In exchange for this authority, MDUFMA requires that FDA pursue a comprehensive set of review performance goals and commitments to improve the timeliness and predictability of medical device reviews. MDUFMA's review performance goals were developed in recognition of the fact that FDA needs a 2-year start-up period (FY 2003 through FY 2004) to hire and train new staff and construct review program infrastructures before substantial progress in improving overall review performance is possible.

HIGHLIGHTS

Among the key achievements during FY 2004 were:

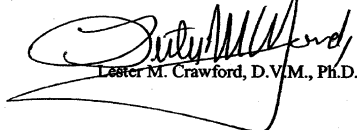
- **Guidance and Procedural Development.** FDA issued 11 MDUFMA guidance documents during FY 2004: 2 draft guidance documents, 7 final guidance documents, and 2 revised editions of final guidance documents that had been issued during FY 2003.
- **Stakeholder Communication and Consultation.** FDA expanded its outreach to stakeholders, providing additional information through the MDUFMA Internet site (www.fda.gov/cdrh/mdufma), through presentations at industry and professional meetings, and at quarterly meetings with stakeholders. In December 2003, FDA held its first Annual Stakeholder Meeting to report on the implementation of MDUFMA and to hear directly from stakeholders.

Page 2 – The Secretary

- **Public Notification.** FDA published 27 *Federal Register* notices to provide essential information to stakeholders on new guidance documents, proposed rules, regulatory actions, user fees, and other topics, and to also request comments and suggestions from stakeholders.
- **Congressional Reporting.** FDA submitted its first MDUFMA performance report and first MDUFMA financial report to Congress covering FY 2003. FDA's new Office of Combination Products submitted its first annual report to Congress, which included information on MDUFMA-related products.
- **Hiring and Training of Staff.** The Center for Devices and Radiological Health applied 735 full-time equivalents (FTEs) to the process of reviewing device applications during FY 2004, an increase of 60 FTEs over FY 2002. The Center for Biologics Evaluation and Research applied 67 FTEs, an increase of 9 FTEs. FDA's hiring focused on priorities identified by product review groups. In addition, FDA expanded its use of outside experts.

RECOMMENDATION

I recommend that you review and approve the report and forward it to Congress.



Lester M. Crawford, D.V.M., Ph.D.

Attachments (2)

Tab A – Transmittal Letters

Tab B – Report to Congress

Trac #04 6398

Letters/Memo Drafted: D Delman: HF-40: 11/17/04

Cleared: W Osborne, 11/18/04

Doc name: G:\wp\danad\MDUFMA Perf 04 ltrs, memo.doc



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

MAR 28 2005

*** RECEIVED ***
Mar 28 2005 13:52:07 WSM 06
OFFICE OF THE SECRETARY
CORRESPONDENCE
CONTROL CENTER

The Honorable Richard Cheney
President
United States Senate
Washington, D.C. 20510

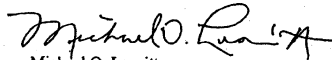
Dear Mr. President:

Enclosed for your consideration is the FY 2004 Performance Report to Congress required by the Medical Device User Fee and Modernization Act (MDUFMA), signed into law on October 26, 2002. MDUFMA amends the Federal Food, Drug, and Cosmetic Act to authorize the Food and Drug Administration to collect user fees from manufacturers who submit certain applications to market medical devices. In exchange for this authority, MDUFMA requires that FDA pursue a comprehensive set of review performance goals and commitments to improve the timeliness and predictability of medical device reviews.

In FY 2004, FDA continued to focus on consulting with its stakeholders through the MDUFMA Internet site (www.fda.gov/cdrh/mdufma), through presentations at industry and professional meetings, and at quarterly meetings; developing guidance documents; designing and building new review processes and improvements necessary to meet MDUFMA's challenging performance goals; publishing 27 Federal Register notices to provide essential information to stakeholders; and hiring and training new staff.

I hope you will find this report informative.

Sincerely,


Michael O. Leavitt

Enclosure



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

*** RECEIVED ***
Mar 28, 2005 13:52:07 WSP 08
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CORRESPONDENCE
CONTROL CENTER

MAR 28 2005

The Honorable J. Dennis Hastert
Speaker of the House
Washington, D.C. 20515

Dear Mr. Speaker:

Enclosed for your consideration is the FY 2004 Performance Report to Congress required by the Medical Device User Fee and Modernization Act (MDUFMA), signed into law on October 26, 2002. MDUFMA amends the Federal Food, Drug, and Cosmetic Act to authorize the Food and Drug Administration to collect user fees from manufacturers who submit certain applications to market medical devices. In exchange for this authority, MDUFMA requires that FDA pursue a comprehensive set of review performance goals and commitments to improve the timeliness and predictability of medical device reviews.

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I hope you will find this report informative.

Sincerely,

Michael O. Leavitt

Enclosure



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

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CORRESPONDENCE
CONTROL CENTER

MAR 28 2005

The Honorable Joe Barton
Chairman
Committee on Energy and Commerce
House of Representatives
Washington, DC 20515


Dear Mr. Chairman:

Enclosed for your consideration is the FY 2004 Performance Report to Congress required by the Medical Device User Fee and Modernization Act (MDUFMA), signed into law on October 26, 2002. MDUFMA amends the Federal Food, Drug, and Cosmetic Act to authorize the Food and Drug Administration to collect user fees from manufacturers who submit certain applications to market medical devices. In exchange for this authority, MDUFMA requires that FDA pursue a comprehensive set of review performance goals and commitments to improve the timeliness and predictability of medical device reviews.

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Sincerely,


Michael O. Leavitt

Enclosure



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

*** RECEIVED ***
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CORRESPONDENCE
CONTROL CENTER

MAR 28 2005

The Honorable John Dingell
Ranking Minority Member
Committee on Energy and Commerce
House of Representatives
Washington, D.C. 20515

Dear Mr. Dingell:

Enclosed for your consideration is the FY 2004 Performance Report to Congress required by the Medical Device User Fee and Modernization Act (MDUFMA), signed into law on October 26, 2002. MDUFMA amends the Federal Food, Drug, and Cosmetic Act to authorize the Food and Drug Administration to collect user fees from manufacturers who submit certain applications to market medical devices. In exchange for this authority, MDUFMA requires that FDA pursue a comprehensive set of review performance goals and commitments to improve the timeliness and predictability of medical device reviews.

In FY 2004, FDA continued to focus on consulting with its stakeholders through the MDUFMA Internet site (www.fda.gov/cdrh/mdufma), through presentations at industry and professional meetings, and at quarterly meetings; developing guidance documents; designing and building new review processes and improvements necessary to meet MDUFMA's challenging performance goals; publishing 27 Federal Register notices to provide essential information to stakeholders; and hiring and training new staff.

I hope you will find this report informative.

Sincerely,


Michael O. Leavitt

Enclosure



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

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The Honorable Edward M. Kennedy
Ranking Minority Member
Committee on Health, Education, Labor and Pensions
United States Senate
Washington, D.C. 20510

Dear Senator Kennedy:

Enclosed for your consideration is the FY 2004 Performance Report to Congress required by the Medical Device User Fee and Modernization Act (MDUFMA), signed into law on October 26, 2002. MDUFMA amends the Federal Food, Drug, and Cosmetic Act to authorize the Food and Drug Administration to collect user fees from manufacturers who submit certain applications to market medical devices. In exchange for this authority, MDUFMA requires that FDA pursue a comprehensive set of review performance goals and commitments to improve the timeliness and predictability of medical device reviews.

In FY 2004, FDA continued to focus on consulting with its stakeholders through the MDUFMA Internet site (www.fda.gov/cdrh/mdufma), through presentations at industry and professional meetings, and at quarterly meetings; developing guidance documents; designing and building new review processes and improvements necessary to meet MDUFMA's challenging performance goals; publishing 27 Federal Register notices to provide essential information to stakeholders; and hiring and training new staff.

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THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

MAR 28 2005

The Honorable Michael B. Enzi
Chairman
Committee on Health, Education, Labor and Pensions
United States Senate
Washington, D.C. 20510

Dear Senator Enzi:

Enclosed for your consideration is the FY 2004 Performance Report to Congress required by the Medical Device User Fee and Modernization Act (MDUFMA), signed into law on October 26, 2002. MDUFMA amends the Federal Food, Drug, and Cosmetic Act to authorize the Food and Drug Administration to collect user fees from manufacturers who submit certain applications to market medical devices. In exchange for this authority, MDUFMA requires that FDA pursue a comprehensive set of review performance goals and commitments to improve the timeliness and predictability of medical device reviews.

In FY 2004, FDA continued to focus on consulting with its stakeholders through the MDUFMA Internet site (www.fda.gov/cdrh/mdufma), through presentations at industry and professional meetings, and at quarterly meetings; developing guidance documents; designing and building new review processes and improvements necessary to meet MDUFMA's challenging performance goals; publishing 27 Federal Register notices to provide essential information to stakeholders; and hiring and training new staff.

I hope you will find this report informative.

Sincerely,

Michael O. Leavitt

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Food and Drug Administration
Department of Health and Human Services

FY 2004 PERFORMANCE REPORT TO THE CONGRESS

for the

**Medical Device User Fee and
Modernization Act**

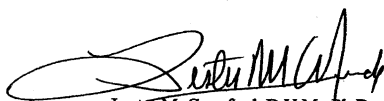


Commissioner's Report

I am pleased to report that the Food and Drug Administration (FDA) is making good progress in implementing the Medical Device User Fee and Modernization Act of 2002 (MDUFMA) and that the Agency's overall performance to date is consistent with the comprehensive and challenging performance goals that are a key feature of MDUFMA.

MDUFMA requires close collaboration with stakeholders and increased communication with applicants. FDA is working to clarify its regulatory requirements and make its decisions more transparent through new guidance and educational materials. We continue to make every effort to reduce the costs as well as the burden associated with product review. These efforts should help applicants improve the quality of their submissions, and will help FDA provide more rapid, better-focused reviews. Our ultimate objective is to make important new medical devices available to patients and health care providers earlier, while continuing to ensure the adequate safety and effectiveness of those devices.

FDA's efforts in fiscal year (FY) 2003 and FY 2004 provide a solid foundation to build on during FY 2005 and in future years.



Lester M. Crawford, D.V.M., Ph.D.
Acting Commissioner of Food and Drugs

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Executive Summary

On October 26, 2002, MDUFMA was signed into law. MDUFMA amends the Federal Food, Drug, and Cosmetic Act (FD&C Act) to authorize FDA to collect user fees from manufacturers who submit certain applications to market medical devices. In exchange for this authority, MDUFMA requires that the FDA pursue a comprehensive set of review performance goals and commitments to improve the timeliness and predictability of medical device reviews.

FDA has made good progress in implementing MDUFMA and is making satisfactory progress towards achieving the performance goals set under MDUFMA. FDA has worked hard to communicate the new requirements and challenges of MDUFMA to its stakeholders. The Agency has worked with its stakeholders to ensure that the implementation of the new law proceeds smoothly. FDA is confident that the implementation of MDUFMA will result in significant benefits to industry, health care professionals, and, most importantly, patients.

FY 2004 Activities

FDA continued to focus on consulting with its stakeholders, developing guidance documents, and designing and building the new review processes and process improvements required to meet MDUFMA's challenging performance goals. As with FY 2003, only two quantifiable performance goals were in effect during FY 2004. Among the key achievements during FY 2004 were:

- **Guidance and Procedural Development.** FDA issued 11 MDUFMA guidance documents during FY 2004: two draft guidance documents, seven final guidance documents, and two revised editions of final guidance documents issued during FY 2003.
- **Stakeholder Communication and Consultation.** FDA expanded its outreach to stakeholders, providing additional information through the MDUFMA Internet site (www.fda.gov/cdrh/mdufma), through presentations at industry and professional meetings, and at quarterly meetings with stakeholders. In December 2003, FDA held its first Annual Stakeholder Meeting to report on the implementation of MDUFMA and to hear directly from stakeholders.
- **Public Notification.** FDA published 27 Federal Register notices to provide essential information to stakeholders on new guidance documents, proposed rules, regulatory actions, user fees, and other topics, and to also request comments and suggestions from stakeholders.
- **Congressional Reporting.** FDA submitted its first MDUFMA performance report and first MDUFMA financial report to Congress covering FY 2003. FDA's new Office of Combination Products submitted its first annual report to Congress, which included information on MDUFMA-related products.

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- **Hiring and Training of Staff.** The Center for Devices and Radiological Health (CDRH) applied 735 full-time equivalents (FTEs) to the process of reviewing device applications during FY 2004, an increase of 60 FTEs since FY 2002. The Center for Biologics Evaluation and Research (CBER) applied 67 FTEs, an increase of 9 FTEs. FDA's hiring focused on priorities identified by product review groups. In addition, FDA expanded its use of outside experts.

FY 2003 and FY 2004 Performance Goals

MDUFMA's review performance goals were developed in recognition of the fact that FDA needs a 2-year start-up period (FY 2003 through FY 2004) to hire and train new staff and construct review program infrastructures before substantial progress in improving overall review performance is possible. Consequently, most review performance goals do not go into effect until FY 2005. As of September 30, 2004, three submissions have been subject to specific MDUFMA performance goals and all were associated with FY 2003 submissions. FDA met the review time goal in two of the three submissions acted on in FY 2004. No FY 2004 amendments were received as of September 30, 2004.

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Introduction

... prompt approval and clearance of safe and effective devices is critical to the improvement of the public health so that patients may enjoy the benefits of devices to diagnose, treat, and prevent disease ...

— Section 101(1) of the Medical Device User Fee and Modernization Act of 2002.

On October 26, 2002, MDUFMA was signed into law. MDUFMA amends the FD&C Act to authorize FDA to collect fees from companies who submit certain applications for marketing of medical devices. In return, MDUFMA requires FDA to pursue a comprehensive set of device review performance goals that will significantly improve the timeliness and predictability of FDA's review of new devices.¹ These performance goals were developed collaboratively and are defined in the Department of Health and Human Services (DHHS) Secretary Thompson's November 14, 2002, letter to Congress.² Information about MDUFMA, including the text of the amendments and the performance goals and procedures, can be found at <http://www.fda.gov/oc/mdufma>.

MDUFMA requires the Secretary to submit two annual reports to Congress for each fiscal year fees are collected: 1) a performance report due within 60 days of the end of the fiscal year, and 2) a financial report due within 120 days of the end of the fiscal year. This document fulfills the first of these requirements for FY 2004. FDA's authority to collect user fees under MDUFMA expires after 5 years.

On April 1, 2004, MDUFMA was amended and expanded by the Medical Device Technical Corrections Act (MDTCA), P.L. 108-214. MDTCA amends MDUFMA to clarify Congress's intent and to improve and expand upon some features of MDUFMA. These changes did not affect the performance goals FDA is pursuing under MDUFMA.

¹ Section 738(g) of FD&C Act, as amended by MDUFMA. Except where noted, all statutory citations in this report are to the FD&C Act, as amended by MDUFMA.

² DHHS Secretary Thompson submitted the required letter to Congress on November 14, 2002 (Congressional Record, November 19, 2002, p. S11549). For convenience, this report refers to this letter as "FDA's Commitment Letter." The complete text of the letter is provided in Appendix A.

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Overview of MDUFMA

Background

MDUFMA was signed into law on October 26, 2002, amending the FD&C Act to provide FDA important new responsibilities, resources, and challenges. The goal of MDUFMA is to better serve the public health by providing additional funds to FDA for "the process for the review of devices and the assurance of device safety and effectiveness so that statutorily mandated deadlines may be met." The user fees provided by MDUFMA, and the additional appropriations that go with the new law, will provide the following significant benefits:

- Safe and effective medical devices will reach patients more rapidly.
- Manufacturers will receive timely, high quality reviews with greater consistency.
- Resources will be provided to ensure that devices marketed in the United States continue to meet high standards for safety and effectiveness.

The majority of devices associated with MDUFMA are reviewed by CDRH. However, a number of devices that are critical to ensuring the safety, purity, and potency of biologic products, including assuring the safety of our nation's supply of blood and human tissue products, are reviewed by CBER. Additionally, CBER regulates diagnostic tests for retroviruses, including HIV, as well as devices used in cell and gene therapies. An Intercenter Agreement between CBER and CDRH discusses the types of devices regulated by CBER.

MDUFMA Commitments: Goals and Approaches

This report is concerned primarily with the performance goals that are an integral part of MDUFMA. FDA has prepared a summary of MDUFMA, including information on topics not covered by this report; see www.fda.gov/cdrh/mdufma/mdufmasummary.pdf. FDA also prepares an annual financial report that provides information on review fee revenues and expenses and compliance with MDUFMA requirements concerning the collection and use of those fees; the current and past reports are available at www.fda.gov/cdrh/mdufma/reports.

The MDUFMA has three particularly significant provisions related to FDA performance:

- User fees for premarket reviews, including Premarket Applications (PMAs), Product Development Protocols (PDPs), Biologics Licensing Applications (BLAs), certain supplements, and 510(k)s (premarket notification submissions). The revenues from these fees, and from additional appropriations for infrastructure, will allow FDA to pursue a set of performance goals that will provide patients earlier access to safe and effective technology, and will provide more interactive and rapid review to the medical device industry. A small business (sales and receipts of \$30 million or less) may pay a reduced fee. The

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payment of a premarket review fee is not related to FDA's final decision on a submission.

- Establishment inspections may be conducted by accredited persons (third parties), under carefully prescribed conditions.
- New regulatory requirements for reprocessed single-use devices, including provisions requiring the submission of additional data on devices now being reprocessed, and a new category of premarket submission, the premarket report.

MDUFMA makes several other significant changes, including:

- The existing third-party 510(k) review program is continued through FY 2006.
- The review of combination products (products that combine elements of devices, drugs, or biologics) will be coordinated by a new office (the Office of Combination Products) in the Office of the Commissioner.
- FDA may require electronic registration of device establishments, when feasible.
- Manufacturers may provide electronic labeling for prescription devices used in health care facilities or by a health care professional.
- The sunset provision, which addresses how FDA is to determine the intended use of a device, is revoked.³ The effect is to make the requirement permanent.
- The law now explicitly provides for modular review of PMAs.

Phased-In Performance Goals

Performance goals increase in number, complexity, and difficulty beginning in FY 2005. Few objectively-measurable goals were applied during FY 2003 and FY 2004, allowing FDA time to hire staff, build infrastructure, provide guidance to industry, and take other actions to implement the new law. More goals go into effect each year from FY 2005 through FY 2007, and the goals become more demanding each year. For example, PMA "first action" goals can be met for the FY 2005 cohort if 75 percent of the actions occur within the specified review time standard, but these goals require 80 percent of actions to meet the standard for FY 2006, and 90 percent for FY 2007. FDA must continually improve its processes and performance if it is to meet these objectives.

³ Applicable to section 513(i)(1)(E).

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MDUFMA's Performance Goals Are Phased In Through FY 2007					
Goal Type	FY 03	FY 04	FY 05	FY 06	FY 07
Measurable Goals Section I, Paragraphs A through H of the FDA Commitment Letter	2	2	20	26	27
Additional Commitments Section I, Paragraphs I through P of the FDA Commitment Letter	8	8	8	8	8
Total Goals and Commitments	10	10	28	34	35

Appendix C provides a table that summarizes all of MDUFMA's objectively-measurable performance goals in effect during each year through FY 2007.

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MDUFMA Implementation

In addition to authorizing the FDA to collect user fees for medical device applications, MDUFMA established review performance goals for the Agency. These goals aim to improve review times for medical device applications by up to 25 percent in five years (even more improvement is expected for breakthrough devices). FDA's medical device program resources have been reduced in recent years, and there have been indications that review performance had begun to decline. MDUFMA's review performance goals recognize that FDA will need a two-year start-up period (FY 2003 through FY 2004) to hire and train new staff and rebuild review program infrastructures before it will be possible to make substantial progress in improving overall review performance. Consequently, most review performance goals do not go into effect until FY 2005. User fees, coupled with additional appropriations from Congress, will help the FDA more efficiently and more quickly make safe and effective medical devices available to the public.

FY 2004 Activities and Accomplishments

FDA continued to make steady progress in implementing MDUFMA in FY 2004 and is laying a sound foundation to enable it to vigorously pursue the ambitious performance goals defined under MDUFMA. However, there was no opportunity for FDA to apply either of the two review performance goals for FY 2004 (both related to FDA action on an amendment containing a complete response to an "approvable" letter).⁴ As a part of FDA's ongoing commitment to MDUFMA, the Agency is preparing, through guidance and procedural development, management initiatives, and outreach/education activities, to meet the more ambitious performance goals of FY 2005 through FY 2007. Highlights of the activities and accomplishments important to MDUFMA implementation are presented below.

- **Guidance and Procedural Development.** During FY 2004, FDA developed and published 11 guidance documents to explain FDA's requirements under MDUFMA and help applicants improve the quality of their applications.
- **Communications and Consultation with Stakeholders.** FDA expanded its outreach to stakeholders, providing additional information through the MDUFMA Internet site (www.fda.gov/cdrh/mdufma), FDA presentations at industry and professional meetings, and quarterly meetings with stakeholders.

⁴ FDA could not apply these goals because the specified conditions for these two goals did not occur before FY 2004 ended. That is, there was no instance where: 1) an applicant submitted an application during FY 2004; 2) FDA issued an "approvable" letter for that application; 3) the applicant submitted an amendment containing a complete response to FDA's "approvable" letter; 4) 30 days passed for FDA to take action on the amendment; and 5) the 30-day period for FDA action closed before the end of FY 2004. FDA often makes a decision on a PMA without issuing an "approvable" letter.

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- **First Annual Stakeholder Meeting.** FDA convened the first Annual MDUFMA Stakeholder Meeting on December 3, 2003, to report on the implementation of MDUFMA and to hear directly from stakeholders. The meeting included panel discussions of the user fee process, MDUFMA performance goals, bundling, modular PMA reviews, and other topics. FDA is using this information to refine the implementation of MDUFMA.
- **Reports to Congress.** FDA submitted the following first annual reports to Congress to keep them informed of the Agency's progress in implementing MDUFMA and to fulfill its obligations under the law.
 - FY 2003 MDUFMA Performance Report.
 - FY 2003 Financial Report on MDUFMA user fee receipts and expenditures.
 - Operations Report from FDA's Office of Combination Products.

Implementation Plans for FY 2005

During FY 2005, FDA will expand its efforts, through employee hiring, training, guidance development, electronic tracking/review system expansion, and outreach, to improve the timeliness and efficiency of device review programs and build FDA's capacity to meet the more challenging goals set for later years. Among the key MDUFMA activities scheduled for FY 2005 are:

- Eighteen more performance goals go into effect for FY 2005. As a result, more submissions will be subject to measurable performance goals, and FDA will have to sustain and improve its performance in order to achieve the higher level of performance expected for FY 2005.
- The modular review program, currently restricted to premarket applications, will be extended to panel-track PMA supplements, and FDA will work with stakeholders to develop performance goals for modular reviews.
- FDA will issue guidance explaining how pre-approval inspections may be completed in considerably less time.
- FDA will provide more substantive guidance on how third-party inspections are to be conducted. Additional guidance documents will be prepared; information on these and other efforts will be available on FDA's MDUFMA Internet site, www.fda.gov/cdrh/mdufma.

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Report on FY 2004 MDUFMA Performance

This report presents the Agency's performance on MDUFMA performance goals and commitments in FY 2004. Additionally, performance information originally presented in FDA's FY 2003 MDUFMA Performance Report has been updated to include additional actions the Agency has taken since its last report. Unless otherwise noted, all performance data in this section are as of September 30, 2004.

Performance Goals. MDUFMA requires that FDA meet specific performance goals. For each type of submission for which a medical device user fee is assessed, MDUFMA contains two types of performance goals:

- **Cycle Goals.** A cycle goal is a goal on a specified action that precedes a final action on the submission.
 For example, "First action major deficiency letters will issue within 120 days." A major deficiency letter is not a final action; the applicant can continue the review by preparing and submitting an amendment that addresses the deficiencies identified in FDA's letter.
- **Decision Goals.** A decision goal, on the other hand, is a goal on a final action, ending the review process.
 For example, "90 percent of submissions received in FY 2007 will have an FDA decision in 300 days."

Submissions received since the start of FY 2003 (October 1, 2002) are subject to MDUFMA's performance goals. FDA will report annually on the current fiscal year and will update performance from the previous fiscal year. Most of these goals do not begin until FY 2005 or FY 2006 to allow the Agency time to hire and train new staff and construct review program infrastructures.

Performance Commitments. In addition to the performance goals, MDUFMA holds FDA to several commitments related to the medical device review process. These include, for example, programs and activities related to the application of user fee revenues, guidance development for the modular PMA review program,⁵ and examination of FDA's bundling policy.⁶

Measuring Performance.⁷ Progress on MDUFMA's performance goals and commitments is measured in different ways, based on the type of goal or commitment. The following types of measures are used to capture FDA's progress on meeting MDUFMA's performance goals and commitments:

- **Quantitative Measures.** MDUFMA's performance goals (cycle and decision goals) are quantifiable; that is, progress can be measured and described primarily

⁵ See Appendix A, section I, paragraph L.

⁶ See Appendix A, section I, paragraph N.

⁷ See Appendix B for a more detailed description of performance measures.

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through standard statistics (for example, number of submissions, mean review time, median review time, and percent meeting a review time standard).

- **Descriptive Measures.** Alternatively, some MDUFMA commitments are more descriptive in nature. For these, progress is reported through narrative accounts outlining specific actions taken, in addition to any results attributed to those actions.

Receipt Cohort. All FDA review performance statistics are based on a receipt cohort. This methodology calculates performance statistics for submissions for the year they were received, regardless of when FDA ultimately acted on, approved, or cleared the submissions. A consequence of this approach is that the statistics shown for a particular year may change from one report to the next. This is because as time passes, FDA completes work on more and more submissions within a cohort. As more submissions are completed, the statistics for that year of receipt must be adjusted to reflect the new completions. Until all submissions in a cohort are completed, only a preliminary performance assessment can be provided for that cohort.

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Original PMAs/PMRs and Panel-track PMA Supplements

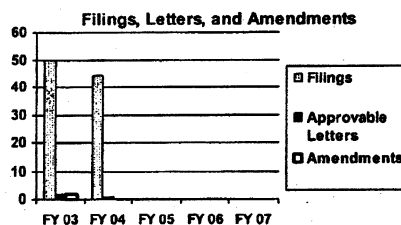
Goal – Act on an amendment containing a complete response to an “approvable” letter

The MDUFMA goal for actions on amendments containing a complete response to an “approvable” letter applies to original PMAs, Premarket Reports (PMRs), and Panel-track PMA Supplements. MDUFMA requires FDA to review and act on 90 percent of amendments containing a complete response to an “approvable” letter within 30 days. The table below summarizes the review time goal for such amendments.

Amendment Type	Review Time Goal	Performance Goal FY 2003 – FY 2007 Submissions
Original PMAs/PMRs	30 days	90% on time
Panel-track PMA Supplements		

Workload

The total number of PMAs/PMRs and panel-track PMA supplements filed in FY 2004 dropped when compared to FY 2003. Only two amendments to approvable letters have been submitted; both were for submissions filed in FY 2003.



Filings, Letters, and Amendments					
Type	FY 03	FY 04	FY 05	FY 06	FY 07
Total Filings (Original PMAs and PMRs/ Panel-track PMA Supplements)	50 (43/7)	44 (39/5)	--	--	--
Approvable Letters	2	1	--	--	--
Amendments	2	0	--	--	--

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Original PMAs/PMRs and Panel-track PMA Supplements

Performance

FY 2003 Submissions

FDA filed 43 PMAs and PMRs, seven panel-track PMA supplements and issued two "approvable" letters as of September 30, 2004 for FY 2003 submissions. FDA received a complete response amendment to these two "approvable" letters and responded to one within the 30 days allowed under this performance goal. With submissions still pending, it is too early to make a final determination for FY 2003.

FY 2003 Submissions					
Submission Type	Review Within	Reviewed and Acted On	Number on Time	MDUFMA Performance Goal	Percent on Time
Amendment containing a complete response to an "approvable" letter	30 days	2	1	90%	50%

FY 2004 Submissions

As of September 30, 2004, FDA had not issued any "approvable" letters for applications in this cohort, and had not had an opportunity to receive any amendments containing a complete response to the FDA "approvable" letter. With submissions still pending, it is too early to make a final determination for FY 2004.

FY 2004 Submissions					
Submission Type	Review Within	Reviewed and Acted On	Number on Time	MDUFMA Performance Goal	Percent on Time
Amendment containing a complete response to an "approvable" letter	30 days	0	0	90%	--

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Expedited Original PMAs

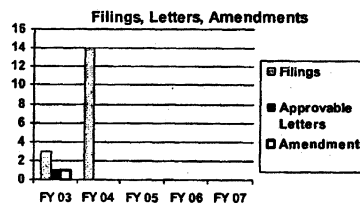
Goal – Act on an amendment containing a complete response to an “approvable” letter

The MDUFMA goal for actions on amendments containing a complete response to an “approvable” letter applies to expedited original PMAs and is identical to the goal for original PMAs/PMRs and Panel-track PMA Supplements. MDUFMA requires FDA to review and act on 90 percent of amendments containing a complete response to an “approvable” letter within 30 days. The table below summarizes the review time goal for such amendments.

Amendment Type	Review Time Goal	Performance Goal FY 2003 – FY 2007 Submissions
Expedited Original PMAs	30 days	90% on time

Workload

The number of expedited PMAs filed increased substantially in FY 2004. Only one amendment in response to an “approvable” letter has been submitted and was for a submission filed in FY 2003.



Filings, Letters, and Amendments					
Type	FY 03	FY 04	FY 05	FY 06	FY 07
Expedited Original PMAs	3	14	--	--	--
Approvable Letters	1	0	--	--	--
Amendments	1	0	--	--	--

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Expedited Original PMAs

Performance

FY 2003 Submissions

FDA filed three expedited PMAs and issued one "approvable" letter as of September 30, 2004 for FY 2003 submissions. FDA received a complete response amendment to this "approvable" letter and responded within the 30 days allowed under this performance goal; FDA ultimately approved that expedited PMA. With submissions still pending, it is too early to make a final determination for FY 2003.

FY 2003 Submissions					
Submission Type	Review Within	Reviewed and Acted On	Number on Time	MDUFMA Performance Goal	Percent on Time
Amendment containing a complete response to an "approvable" letter	30 days	1	1	90%	100%

FY 2004 Submissions

As of September 30, 2004, FDA had not issued an "approvable" letter for any expedited PMA in this cohort, and had not received any amendments containing a complete response to the FDA "approvable" letter. FDA approved one expedited PMA in this cohort without first issuing an "approvable" letter. With submissions still pending, it is too early to make a final determination for FY 2004.

FY 2004 Submissions					
Submission Type	Review Within	Reviewed and Acted On	Number on Time	MDUFMA Performance Goal	Percent on Time
Amendment containing a complete response to an "approvable" letter	30 days	0	0	90%	--

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Additional MDUFMA Performance Commitments

This section reports on the additional commitments outlined in FDA's Commitment Letter. A detailed description of the commitments, performance targets, and definitions of terms can be found in Appendix A (section I, paragraphs I - P).

Maintenance of Current Performance

FDA's FY 2004 performance in review areas that do not have specific MDUFMA performance goals is comparable to FY 2003 and FY 2002 performance (performance prior to enactment of MDUFMA). The following table provides examples of sustained performance by product submissions.

CDRH Performance Indicators	FY 02	FY 03	FY 04
HDEs — Filing to first action (average FDA days)	53	39	44
HDEs — Elapsed time to approval (average FDA days)	60	44	57
IDEs — FDA review time (average FDA days)	28	27	28
IDEs — Percent of decisions made within 30 days	99%	100%	100%
IDE Amendments — FDA review time (average FDA days)	18	19	18
IDE Amendments — Percent of decisions made within 30 days	100%	100%	100%
IDE Supplements — FDA review time (average FDA days)	20	19	19
IDE Supplements — Percent of decisions made within 30 days	100%	100%	100%
CBER Performance Indicators	FY 02	FY 03	FY 04
BLA Supplements — CBE/CBE-30 — Percent of decisions made within 6 months	99%	97%	100%
PMA Supplements — CBE — Percent of decisions made within 180 days	100%	100%	100%
PMA Supplements — 135-day — Percent of decisions made within 135 days	NR	100%	100%
PMA Supplements — CBE-30 — Percent of decisions made within 30 days	67%	100%	100%
KEY: HDEs—Humanitarian Device Exemptions; IDEs—Investigational Device Exemptions; BLA—Biologic License Application; PMA—Premarket Application; CBE—Changes Being Effectuated; NR—None Received			

Some reported measures may change over time, as additional actions are taken on open applications.

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Additional MDUFMA Performance Commitments

This section reports on the additional commitments outlined in FDA's Commitment Letter. A detailed description of the commitments, performance targets, and definitions of terms can be found in Appendix A (section I, paragraphs I - P).

Maintenance of Current Performance

FDA's FY 2004 performance in review areas that do not have specific MDUFMA performance goals is comparable to FY 2003 and FY 2002 performance (performance prior to enactment of MDUFMA). The following table provides examples of sustained performance by product submissions.

CDRH Performance Indicators	FY 02	FY 03	FY 04
HDEs — Filing to first action (average FDA days)	53	39	44
HDEs — Elapsed time to approval (average FDA days)	60	44	57
IDEs — FDA review time (average FDA days)	28	27	28
IDEs — Percent of decisions made within 30 days	99%	100%	100%
IDE Amendments — FDA review time (average FDA days)	18	19	18
IDE Amendments — Percent of decisions made within 30 days	100%	100%	100%
IDE Supplements — FDA review time (average FDA days)	20	19	19
IDE Supplements — Percent of decisions made within 30 days	100%	100%	100%
CBER Performance Indicators	FY 02	FY 03	FY 04
BLA Supplements — CBE/CBE-30 — Percent of decisions made within 6 months	99%	97%	100%
PMA Supplements — CBE — Percent of decisions made within 180 days	100%	100%	100%
PMA Supplements — 135-day — Percent of decisions made within 135 days	NR	100%	100%
PMA Supplements — CBE-30 — Percent of decisions made within 30 days	67%	100%	100%
KEY: HDEs—Humanitarian Device Exemptions; IDEs—Investigational Device Exemptions; BLA—Biologic License Application; PMA—Premarket Application; CBE—Changes Being Effectuated; NR—None Received			

Some reported measures may change over time, as additional actions are taken on open applications.

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Meetings with Regulated Industry

FDA continues to encourage meetings as a particularly effective way to ensure that both FDA and applicants understand the clinical, scientific, and regulatory issues associated with new technologies. Pre-IDE and pre-PMA meetings have proven to be particularly beneficial and are used routinely by industry. During FY 2004, FDA reviewed more than 300 pre-IDE submissions and held more than 100 pre-IDE meetings. The more formal types of meetings (agreement meetings, determination meetings, 100-day meetings) are not used as frequently by premarket applicants. FDA is working to ensure that the need to meet MDUFMA's many quantitative performance goals (which require a great deal of focused attention) does not result in delays in scheduling and holding meetings with applicants.

Reviewer Training and Hiring

FDA is working to strengthen and expand its capacity to conduct efficient and timely reviews to ensure the safety and effectiveness of new medical devices. The Agency has made a good start towards hiring the additional staff that will be needed to improve the device review processes and meet the performance goals established for FDA under MDUFMA.

FDA was not able to hire new staff to implement MDUFMA until after FDA received its appropriation for FY 2003 on February 20, 2003. Prior to that time, FDA began implementing MDUFMA with existing staff. FDA's implementation of MDUFMA accelerated beginning with the second half of FY 2003, as FDA was able to begin hiring and training new staff. During FY 2004, FDA hired medical officers, consumer safety officers, chemists, microbiologists, biomedical engineers, statisticians, scientists, project managers, IT specialists, and other specialized staff. FDA also expanded the use of contractors and outside experts, providing additional flexibility to meet nonrecurring workloads, to augment FDA resources in highly specialized areas, and to achieve particular tasks at a lower cost than would otherwise be possible.

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- Resources Applied to MDUFMA Activities.** During FY 2003, CDRH increased the resources applied to the process for the review of device applications by 6 FTEs over FY 2002 while also constructing new program infrastructure for the review of device applications.⁸ During FY 2004, CDRH applied 54 more FTEs than FY 2003 (60

CDRH Resources (FTEs) Applied to the Process for the Review of Device Applications				
Process	FY 02	FY 03	FY 04	(Projected) FY 05
Premarket Review	529	534	575	660
Related Activities	146	147	160	167
Total	675	681	735	827
Increase Compared to FY 02	--	6	60	152

FTEs over FY 2002). CDRH projects that during FY 2005, 92 FTEs more than FY 2004 will be applied; this will mean CDRH will have increased the resources available to the process for the review of device applications by 152 FTEs since FY 2002.

For FY 2003, CBER received 11 FTEs for MDUFMA implementation.⁹ The process for the review of device applications required 58 FTEs. For FY 2004, CBER received an additional 9 FTEs for MDUFMA implementation, and estimated that the device review program required 67 FTEs. CBER has used MDUFMA resources to add medical and technical expertise in a variety of fields, such as infectious diseases, blood establishment computer software, blood collecting and processing devices, and blood banking reagents and equipment.

⁸ The "process for the review of device applications" is defined by section 737(5) of the FD&C Act.

⁹ CBER's regulatory responsibilities and workload demands are such that its personnel who are involved in medical device reviews are also expected to be involved with other workloads, such as biologics reviews. The 11 FTEs authorized for MDUFMA workloads will be spread over many new hires, each to work partly on device activities and partly on other workloads. Consequently, it is not appropriate to describe these new hires as being within a particular category of employee.

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- Hiring of New Personnel.** CDRH has hired almost all of its new personnel on term appointments. This approach is consistent with stakeholders' expectations that FDA will hire staff to meet critical needs as they arise and to meet those needs with a flexible approach that can be modified as the Agency's needs change. This approach also reflects the uncertainty surrounding MDUFMA funding.¹⁰

Hiring (category)/Number of Positions (not FTEs)		
Position	FY 03	FY 04
Scientist	26	19
Engineer	16	12
Statistician	6	9
Consumer Safety Officer	9	3
Medical Officer / Nurse	4	5
Project Manager	6	2
Program Support	7	5
Attorney	1	0
Total Hiring	75	55

- Medical Device Fellowship Program.** CDRH has established a Medical Device Fellowship program as a way to identify, recruit, and employ highly-specialized expertise. Participation in the program can be tailored to the interests of both CDRH and participants, making it a very flexible tool for meeting changing Center needs. As of October 1, 2004, 64 fellows were participating in the program.

Medical Device Fellowship Participation as of October 1, 2004	
Category	Participants
Engineers	42
Physicians	15
Scientists	5
Physicists	2
Total Participants	64

- Training.** CDRH and CBER have begun to train staff on the new guidance and procedures required to effectively implement MDUFMA, and have engaged in numerous training activities. Both Centers have also developed plans that will significantly increase clinical and technical training in the coming years.

Modular PMA Review Program

FDA issued initial guidance on modular PMA reviews in its guidance document, *Assessing User Fees: PMA Supplement Definitions, Modular PMA Fees, BLA and Efficacy Supplement Definitions, Bundling Multiple Devices in a Single Application, and Fees for Combination Products*, on February 25, 2003. This guidance explained that the

¹⁰ FDA's FY 2003 appropriation was delayed until February 2003, and the appropriations enacted for FY 2003 and FY 2004 were below the minimum levels required by section 738(g)(1) of the FD&C Act (this provision was added by section 102 of MDUFMA).

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fee for a modular PMA submission was due upon submission of the *first module* (not just the "shell" that described the overall plan for the modular submission).

On November 23, 2003, FDA provided a more comprehensive guidance document, *Premarket Approval Application Modular Review*; this guidance provided industry and FDA staff with information regarding the modular review program and outlined the procedures for submitting and reviewing a modular PMA. As FDA gains more experience with the modular PMA process, it will consult with stakeholders to develop performance goals for this program.

Note: FDA determined that it will not assess a MDUFMA review fee for any modular PMA submission whose first module was received prior to the statutory effective date of MDUFMA (October 1, 2002). FDA will receive additional modules for these PMAs for years to come, but will not receive any review fees for this considerable workload.

Bundling Policy

After consulting with stakeholders, FDA determined that bundling is appropriate under certain circumstances. On February 25, 2003, FDA issued initial guidance describing general bundling principles in its guidance document, *Assessing User Fees: PMA Supplement Definitions, Modular PMA Fees, BLA and Efficacy Supplement Definitions, Bundling Multiple Devices in a Single Application, and Fees for Combination Products*. This guidance explained that bundling may involve multiple devices or multiple indications for use in a single submission. On November 26, 2003, FDA provided a more comprehensive guidance document, *Bundling Multiple Devices or Multiple Indications in a Single Submission*. This guidance was intended to help industry and FDA staff understand when bundling may be appropriate, when separate submissions should be considered, and provided numerous examples illustrating these bundling principles for both 510(k) and PMA applications. Interest in bundling has increased since MDUFMA was enacted, and FDA is now receiving considerable numbers of bundled submissions.

Electronic Review of Applications

FDA published *Guidance for Industry. Providing Regulatory Submissions to CBER in Electronic Format - Investigational New Drug Applications (INDs)* (March 26, 2002), which applies to investigational studies of devices, such as blood screening test kits, leading to a BLA. CBER contributed to guidance documents on electronic submissions in general, and received a number of electronic submissions for biologic (non-device) reviews. To date, CBER has not received electronic submissions of any medical device applications.

CBER continues to make a significant outreach effort to inform regulated industry of the process for electronic submissions. In particular, during all sponsor meetings, CBER informs applicants and potential applicants of the ability to submit electronic documents. In addition, CBER is making provisions for secure e-mail when not associated with an original electronic application.

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CDRH is working with applicants to expand the use of electronic submissions, focusing first on increasing the use of electronic copies of applications. During FY 2004, CDRH received 48 submissions for PMAs, IDEs, 510(k)s, and other applications from 16 different sponsors entirely in electronic form. Instructions for making electronic submissions to CDRH are available at www.fda.gov/cdrh/elecsub.html. CDRH initiated a "Turbo 510(k)" pilot in the Office of In-Vitro Diagnostics Device Evaluation and Safety, providing an electronic template for submission and review of *in vitro* diagnostic device 510(k)s.

Preapproval Inspections

During FY 2003, FDA began a comprehensive examination of factors affecting the timeliness and efficiency of the preapproval inspection process to determine how the process can be improved and what resources would be required to make those improvements. During FY 2004, FDA continued to examine alternatives to improve the timeliness and efficiency of the process, and began to develop guidance to: 1) help industry better understand the preapproval inspection process, so they will be better prepared for their inspections; and 2) explain how the Centers will work with applicants, the Office of Regulatory Affairs, and with its field inspectors to improve the timeliness of preapproval inspections; this will include clearly-defined milestones in the preapproval inspection process to help ensure more timely scheduling and completion of inspections.

FDA expects to issue this guidance during FY 2005. The Agency expects the guidance, combined with associated process improvements, will help FDA meet both this goal and the PMA goals.

Next Steps to Implement MDUFMA Successfully

FDA faces a number of critical implementation steps in meeting MDUFMA's performance goals which grow progressively more challenging each year through FY 2007. These include building critical infrastructure, hiring and training additional staff, making greater use of external expertise, and reengineering our review processes to provide for more timely and efficient device reviews. Additionally, FDA will work with the Administration and Congress to ensure continued success of the device user fee program.

FDA needs to address the following implementation challenges to achieve the improvements promised by MDUFMA.

- Develop data systems that ensure each device review subject to a user fee is linked to the correct user fee payment and systems to measure FDA's review performance against the many goals established under MDUFMA. This will require new internal systems, as well as systems to link very different databases in FDA's Office of the Commissioner, CBER, and CDRH.

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- Move forward with electronic application submission and review systems and processes.
- Hire and train additional FDA scientists, engineers, statisticians, and other staff to: better distribute review workloads, expand the opportunity for meetings and other interaction with applicants, expand and update guidance documents used by applicants to prepare high-quality applications, and undertake the many additional efforts that will be required to meet or exceed MDUFMA's performance goals.
- Make greater use of external expertise to ensure timely action on medical device reviews that involve novel new technologies or unusual efforts.
- Ensure timely pre-approval inspections, both within the United States and abroad.
- Develop new processes for modular PMA reviews, and to work with stakeholders to develop meaningful performance goals for these reviews.
- Ensure that device reviews are completed in as few cycles as possible, thereby speeding the introduction of important new medical technologies and providing greater predictability in the reviews.

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**Appendix A: November 14, 2002, Commitment Letter from
DHHS Secretary Thompson to Congress**

THE SECRETARY OF HEALTH AND HUMAN SERVICES

Washington, DC, November 14, 2002

Hon. EDWARD KENNEDY
U.S. Senate
Washington, DC

DEAR MR. CHAIRMAN:

As you are aware, the Medical Device User Fee and Modernization Act of 2002 was signed by the President on October 26, 2002. Under Title I, the additional revenues generated from fees paid by the medical device industry will be used to expedite the medical device review process, in accordance with performance goals that were developed by the Food and Drug Administration (FDA) in consultation with the industry.

FDA has worked with various stakeholders, including representatives from consumer, patient, and health provider groups, and the medical device industry to develop legislation and goals that would enhance the success of the device review program. Title I of the Medical Device User Fee and Modernization Act of 2002 reflects the fee mechanisms and other improvements developed in these discussions. The performance goals referenced in Section 101 are specified in the enclosure to this letter, entitled "Performance Goals and Procedures." I believe they represent a realistic projection of what FDA can accomplish with industry cooperation and the additional resources identified in the bill.

This letter and the enclosed goals document pertain only to title I (Fees Related to Medical Devices) of Public Law 107-250, Medical Device User Fee and Modernization Act of 2002. OMB has advised that there is no objection to the presentation of these views from the standpoint of the Administration's program. We appreciate the support of you and your staffs, the assistance of other Members of the Committee, and that of the Appropriations Committees, in the authorization of this vital program.

Sincerely,

TOMMY G. THOMPSON

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MDUFMA PERFORMANCE GOALS AND PROCEDURES

The performance goals and procedures of the FDA Center for Devices and Radiological Health (CDRH) and the Center for Biologics Evaluation and Research (CBER), as agreed to under the medical device user fee program in the Medical Device User Fee and Modernization Act of 2002, are summarized as follows:

I. REVIEW PERFORMANCE GOALS — FISCAL YEAR 2003 THROUGH 2007

All references to "days" mean "FDA days."

A. ORIGINAL PREMARKET APPROVAL (PMA), PANEL-TRACK PMA SUPPLEMENT, AND PREMARKET REPORT SUBMISSIONS

1. The following cycle goals apply to: 75% of submission received in fiscal year 2005; 80% of submissions received in fiscal year 2006; 90% of submissions received in fiscal year 2007.

- (a) First action major deficiency letters will issue within 150 days.
- (b) All other first action letters (approval, approvable, approvable pending good manufacturing practices (GMP) inspection, not approvable, or denial) will issue within 180 days.
- (c) Second or later action major deficiency letters will issue within 120 days.
- (d) Amendments containing a complete response to major deficiency or not approvable letters will be acted on within 180 days.

2. Decision Goals:

- (a) 80% of submissions received in fiscal year 2006 will have an FDA decision in 320 days.
- (b) 90% of submissions received in fiscal year 2007 will have an FDA decision in 320 days.

3. Subject to the following paragraph, 50% of submissions received in fiscal year 2007 will have an FDA decision in 180 days.

This goal will be re-evaluated following the end of fiscal year 2005. FDA will hold a public meeting to consult with its stakeholders and to determine whether this goal is appropriate for implementation in fiscal year 2007. If FDA determines that the goal is not appropriate, prior to August 1, 2006, the Secretary will send a letter to the Committee on Health, Education, Labor and pensions of the Senate and to the Energy and Commerce Committee, Subcommittee on Health of the House of Representatives stating that the goal will not be implemented and the rationale for its removal.

4. 90% of amendments containing a complete response to an approvable letter received in fiscal years 2003 through 2007 will be acted on within 30 days.

B. EXPEDITED ORIGINAL PMA SUBMISSIONS

1. The following goals apply to PMA submissions where:

- (a) FDA has granted the application expedited status;
- (b) The applicant has requested and attended a pre-filing review meeting with FDA;

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(c) The applicant's manufacturing facilities are prepared for inspection upon submission of the application; and

(d) The application is substantively complete, as defined at the pre-filing review meeting.

2. The following cycle goals apply to: 70% of submissions received in fiscal year 2005; 80% of submissions received in fiscal year 2006; 90% of submissions received in fiscal year 2007.

(a) First action major deficiency letters will issue within 120 days.

(b) All other first action letters (approval, approvable, approvable pending GMP inspection, not approvable, or denial) will issue within 170 days.

(c) Second or later action major deficiency letters will issue within 100 days.

(d) Amendments containing a complete response to major deficiency or not approvable letters will be acted on within 170 days.

3. Decision Goals:

(a) 70% of submissions received in fiscal year 2005 will have an FDA decision in 300 days.

(b) 80% of submissions received in fiscal year 2006 will have an FDA decision in 300 days.

(c) 90% of submissions received in fiscal year 2007 will have an FDA decision in 300 days.

4. 90% of amendments containing a complete response to an approvable letter received in fiscal years 2003 through 2007 will be acted on within 30 days.

C. 180-DAY PMA SUPPLEMENT SUBMISSIONS

1. The following goals apply to: 80% of submissions in fiscal year 2005; 85% of submissions in fiscal year 2006; 90% of submissions in fiscal year 2007.

(a) First action not approvable letters will issue within 120 days.

(b) All other first action letters (approval, approvable, approvable pending GMP inspection, or denial) will issue within 180 days.¹¹

(c) Amendments containing a complete response to a not approvable letter will be acted on within 160 days.

2. Decision Goals:

(a) 80% of submissions received in fiscal year 2005 will have an FDA decision in 180 days.

(b) 80% of submissions received in fiscal year 2006 will have an FDA decision in 180 days.

(c) 90% of submissions received in fiscal year 2007 will have an FDA decision in 180 days.

3. Current performance for real-time review PMA supplement submissions will be maintained.

¹¹ This text was edited from the original version. "Not approvable" was taken out of the list of "All other first action letters." Because "Not approvable" letter is already captured under the "First Action" goal of 120 days, it should not be repeated under the "All other first actions" goal of 180 days.

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D. 510(k) SUBMISSIONS

1. The following goals apply to: 70% of submissions received in fiscal year 2005; 80% of submissions received in fiscal year 2006; 90% of submissions received in fiscal year 2007.

(a) First action additional information letters will issue within 75 days.

(b) Subsequent action letters will issue within 60 days.

2. Decision Goals:

(a) 75% of submissions received in fiscal years 2005 and 2006 will have an FDA decision in 90 days.

3. Subject to the following paragraph, 80% of submissions received in fiscal year 2007 will have an FDA decision in 90 days.

This goal will be re-evaluated following the end of fiscal year 2005. FDA will hold a public meeting to consult with its stakeholders and to determine whether this goal is appropriate for implementation in fiscal year 2007. If FDA determines that the goal is not appropriate, prior to August 1, 2006, the Secretary will send a letter to the Committee on Health, Education, Labor and Pensions of the Senate and to the Energy and Commerce Committee, Subcommittee on Health of the House of Representatives stating that the goal will not be implemented and the rationale for its removal, and that the goal for fiscal year 2006 will be implemented for fiscal year 2007.

E. ORIGINAL BIOLOGICS LICENSING APPLICATIONS (BLAs)

The following goals apply to: 75% of submissions received in fiscal year 2006; 90% of submissions received in fiscal year 2007.

1. Review and act on standard original BLA submissions within 10 months of receipt.

2. Review and act on priority original BLA submissions within 6 months of receipt.

F. BLA EFFICACY SUPPLEMENTS

The following goals apply to: 75% of submissions received in fiscal year 2006; 90% of submissions received in fiscal year 2007.

1. Review and act on standard BLA efficacy supplement submissions within 10 months of receipt.

2. Review and act on priority BLA efficacy supplement submissions within 6 months of receipt.

G. ORIGINAL BLA AND BLA EFFICACY SUPPLEMENT RESUBMISSIONS

The following goals apply to: 75% of submissions received in fiscal year 2005; 80% of submissions received in fiscal year 2006; 90% of submissions received in fiscal year 2007.

1. Review and act on Class 1 original BLA and BLA efficacy supplement resubmissions within 2 months of receipt.

2. Review and act on Class 2 original BLA and BLA efficacy supplement resubmissions within 6 months of receipt.

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H. BLA MANUFACTURING SUPPLEMENTS REQUIRING PRIOR APPROVAL

The following goal applies to: 75% of submissions received in fiscal year 2006; 90% of submissions received in fiscal year 2007.

Review and act on BLA manufacturing supplements requiring prior approval within 4 months of receipt.

I. ADDITIONAL EFFORTS RELATED TO PERFORMANCE GOALS

The Agency and the regulated industry agree that the use of both informal and formal meetings (e.g., determination and agreement meetings, informal pre-investigational device exemption (IDE) meetings, pre-PMA meetings, pre-PMA filing meetings) by both parties is critical to ensure high application quality such that the above performance goals can be achieved.

J. MAINTENANCE OF CURRENT PERFORMANCE

It is the intent of the Agency that in review areas where specific performance goals have not been identified, current performance will be maintained.

K. APPLICATION OF USER FEE REVENUES

The Agency intends to apply significant user fee revenues to support reviewer training and hiring and/or outside contracting to achieve the identified performance goals in a responsible and efficient manner.

L. MODULAR PMA REVIEW PROGRAM

The Agency intends to issue guidance regarding the implementation of new section 515(c)(3) of the Federal Food, Drug, and Cosmetic Act. It is the intent of the Agency that once this program is implemented, the Agency will work with its stakeholders to develop appropriate performance goals for this program. Until such time, the Agency intends to review and close complete modules that are submitted well in advance of the PMA submission as expeditiously as possible.

M. "FOLLOW-ON" LICENSED DEVICES

The Center for Biologics Evaluation and Research will, if feasible, identify a category of "follow-on" licensed devices and collect information to determine whether alternative performance goals for such a category are appropriate.

N. BUNDLING POLICY

The Agency will, in consultation with its stakeholders, consider the issue of bundling for products with multiple related submissions. After such consultation, the Agency will either issue guidance on bundling or publish a notice explaining why it has determined that bundling is inappropriate.

O. ELECTRONIC REVIEW OF APPLICATIONS

The Agency will continue its efforts toward development of electronic receipt and review of applications, as expeditiously as possible, acknowledging that insufficient funding is included in the user fee program for this effort.

P. PREAPPROVAL INSPECTIONS

The Agency will plan to improve the scheduling and timeliness of preapproval inspections. The Agency will monitor the progress of these efforts and provide such information in the annual performance report.

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II. ANNUAL STAKEHOLDER MEETING

Beginning in fiscal year 2004, FDA will hold annual public meetings to review and evaluate the implementation of this program in consultation with its stakeholders.

III. DEFINITIONS AND EXPLANATION OF TERMS

A. For original PMA submissions, Panel-Track PMA supplement submissions, expedited original PMA submissions, 180-day supplement submissions, and premarket report submissions, issuance of one of the following letters is considered to be an FDA decision:

1. approval
2. approvable
3. approvable pending GMP inspection
4. not approvable
5. denial

B. For 510(k) submissions, issuance of one of the following letters is considered to be an FDA decision:

1. substantially equivalent (SE)
2. not substantially equivalent (NSE)

C. Submission of an unsolicited major amendment to an original PMA submission, Panel-Track PMA supplement submission, expedited original PMA submission, 180-day supplement submission, or premarket report submission extends the FDA decision goal date by the number of days equal to 75% of the difference between the filing date and the date of receipt of the amendment. The submission of the unsolicited major amendment is also considered an action that satisfies the first or later action goal, as applicable.

D. For BLA (original, efficacy supplement, or manufacturing supplement) submissions, the term "review and act on" is understood to mean the issuance of a complete action letter after the complete review of a filed complete application. The action letter, if it is not an approval, will set forth in detail the specific deficiencies and, where appropriate, the actions necessary to place the application in condition for approval.

E. For original BLA and BLA efficacy supplement resubmissions:

1. Class 1 resubmitted applications are applications resubmitted after a complete response letter that include the following items only (or combinations of these items):
 - (a) Final printed labeling
 - (b) Draft labeling
 - (c) Safety updates submitted in the same format, including tabulations, as the original safety submission with new data and changes highlighted (except when large amounts of new information including important new adverse experiences not previously reported with the product are presented in the resubmission)
 - (d) Stability updates to support provisional or final dating periods
 - (e) Commitments to perform Phase 4 studies, including proposals for such studies
 - (f) Assay validation data
 - (g) Final release testing on the last 1-2 lots used to support approval
 - (h) A minor reanalysis of data previously submitted to the application (determined by the agency as fitting the Class 1 category)
 - (i) Other minor clarifying information (determined by the Agency as fitting the Class 1 category)
 - (j) Other specific items may be added later as the Agency gains experience with the scheme and will be communicated via guidance documents to industry.
2. Class 2 resubmissions are resubmissions that include any other items, including any item that would require presentation to an advisory committee.

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Appendix B: Measuring Performance Under MDUFMA

Different types of performance goals require different types of performance measures. FDA measures its success in meeting MDUFMA's goals and commitments in two ways: using *quantitative* measures and using *descriptive* measures, depending on how the objective for a particular performance goal is described in FDA's commitment letter. If the commitment letter provides an objective standard against which to measure our progress, we use quantitative measures. If the commitment letter does not provide an objective standard, FDA uses descriptive measures.

Quantitative Measures

Quantitative progress is measured and described primarily through standard, quantifiable statistics (for example, number of submissions, mean performance, median performance, percent meeting a review time standard). Each quantitative goal has the following characteristics:

- a clear definition of the submissions to which the goal applies (e.g., expedited PMAs),
- a clear definition of the action FDA is to take (e.g., issue a first action major deficiency letter),
- an objective review time standard (i.e., the number of days or months within which FDA is expected to take action),
- a quantifiable measure of performance (i.e., the minimum percent of submissions for which FDA is expected to meet the review time standard), and
- a specific time frame within which the goal applies (i.e., the fiscal year for which FDA performance will be evaluated).

MDUFMA's review performance goal progress is measured using quantitative methods.¹² Most of these goals use measures of success that become significantly more challenging over time.¹³ This approach recognizes that FDA must first hire and train new staff and rebuild review program infrastructures before it will be possible to make substantial progress in improving overall review performance, while providing interim goals that allow periodic evaluation of FDA's progress towards the ultimate goals of the program.

¹² These are defined in section I, paragraphs A through H, of FDA's Commitment Letter. A tabular summary of all of MDUFMA's objective performance goals is provided in Attachment C.

¹³ For example, Section I, paragraph B, goal 3(a) of FDA's Commitment Letter sets the following goal for Expedited PMAs: "70% of submissions received in fiscal year 2005 will have an FDA decision in 300 days." This is a quantitative goal because it applies to a defined category of applications (expedited PMAs), involves a defined type of action (an FDA decision), sets an objective review time standard (300 days), has a quantifiable measure of successful performance (70% of submissions), and applies within a specific time frame (FY 2005).

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Example: An example of where a performance goal is evaluated through quantitative measures is an Expedited PMA, received during FY 2005, when FDA's first action is a "major deficiency" letter. FDA will take that action (issue the letter) within 150 days of receipt of the Expedited PMA [(FDA Commitment Letter, section I, paragraph B, Item 2(a))].

Descriptive Measures

When quantitative measure cannot be used to evaluate FDA's progress in implementing a performance goal, the Agency uses descriptive measures to assess its performance. The Agency reports its progress in narrative accounts that outline the specific actions FDA has taken, the results are attributed to those actions.

MDUFMA's commitments use descriptive measures to assess performance.¹⁴ For descriptive measures, progress is reported through narrative accounts outlining specific actions taken, in addition to any results attributed to those actions. Descriptive measures:

- do not involve an objective review time standard
- do not have a quantifiable measure of successful performance, and
- do not specify the time frame within which it must be completed.

FDA regards all of MDUFMA's descriptive performance commitments to be in effect beginning with FY 2003 and will report progress towards achieving these commitments each year in the annual performance report.

Example: An example of where a performance goal is evaluated using descriptive measures is when FDA issues guidance on modular reviews under section 515(c)(3), and works with stakeholders to develop appropriate performance goals for the modular review program [(FDA Commitment Letter, section I, paragraph L)].

Receipt Cohorts

FDA measures its performance against applications in a *receipt cohort*. This methodology records performance on a submission in the statistics for the year it was *received*, regardless of when FDA ultimately acted on, approved, or cleared that submission. A consequence of this approach is that the statistics shown for a particular year may change from one report to the next. This is because, as time passes, FDA completes all work on more and more submissions. As more submissions are completed, the statistics for that year of receipt must be adjusted to reflect the new completions.

¹⁴ Defined in section I, paragraphs I through P, of FDA's Commitment Letter.

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Eligible Submissions Under MDUFMA

The performance goals of MDUFMA do not apply to device submissions received prior to FY 2003. Although FDA will work diligently to improve review performance for *all* applications, regardless of when they were received, submissions received prior to FY 2003 will not be reflected in the *performance statistics* used to evaluate FDA's progress towards meeting MDUFMA's goals. Submissions received since the start of FY 2003 (October 1, 2002) are subject to MDUFMA's performance goals, and will be reflected in FDA's performance statistics.

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Appendix C: Summary of MDUFMA's Quantitative Goals

This table summarizes all of MDUFMA's quantifiable review performance goals (section I, goals A through H, in DHHS Secretary Thompson's November 14, 2002, Commitment Letter).

Activity	Review Time	Performance Level (by FY) (— indicates no quantitative goal)				
		2003	2004	2005	2006	2007
PMAs, Panel-Track Supplements, Premarket Reports						
• FDA decision (approval, approvable, approvable pending GMP inspection, not approvable, denial)	320 days	—	—	—	80%	90%
• FDA decision – median performance	180 days	—	—	—	—	50% ¹⁵
• First action – "major deficiency" letter	150 days	—	—	75%	80%	90%
• First action – all other first actions (approval, approvable, approvable pending GMP inspection, not approvable, or denial)	180 days	—	—	75%	80%	90%
• Second or later action – "major deficiency" letter	120 days	—	—	75%	80%	90%
• Action on an amendment containing a complete response to a "major deficiency" or "not approvable" letter	180 days	—	—	75%	80%	90%
• Action on an amendment containing a complete response to an "approvable" letter	30 days	90%	90%	90%	90%	90%
Expedited PMAs These goals apply when FDA has granted expedited status; the applicant has attended a pre-filing meeting; manufacturing facilities are ready for inspection; and the PMA is substantively complete as defined at the pre-filing meeting.						
• FDA decision (approval, approvable, approvable pending GMP inspection, not approvable, denial)	300 days	—	—	70%	80%	90%
• First action – "major deficiency" letter	120 days	—	—	70%	80%	90%
• First action – all other first actions (approval, approvable, approvable pending GMP inspection, not approvable, or denial)	170 days	—	—	70%	80%	90%
• Second or later action – "major deficiency" letter	100 days	—	—	70%	80%	90%
• Action on an amendment containing a complete response to a "major deficiency" or "not approvable" letter	170 days	—	—	70%	80%	90%
• Action on an amendment containing a complete response to an "approvable" letter	30 days	90%	90%	90%	90%	90%

¹⁵ These goals will be re-evaluated following the end of FY 2005. FDA will hold a public meeting to consult with its stakeholders and to determine whether this goal is appropriate for implementation in FY 2007. If FDA determines that a goal is not appropriate, prior to August 1, 2006, the Secretary will send a letter to the Committee on Health, Education, Labor and Pensions of the Senate and to the Energy and Commerce Committee, Subcommittee on Health of the House of Representatives stating that the goal will not be implemented and the rationale for its removal.

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Activity	Review Time	Performance Level (by FY) (— indicates no quantitative goal)				
		2003	2004	2005	2006	2007
180-day PMA Supplements						
• FDA decision (approval, approvable, approvable pending GMP inspection, not approvable, denial)	180 days	—	—	80%	80%	90%
• First action – "not approvable" letter	120 days	—	—	80%	85%	90%
• First action – all other first actions (approval, approvable, approvable pending GMP inspection, or denial)	180 days	—	—	80%	85%	90%
• Action on an amendment containing a complete response to a "not approvable" letter	160 days	—	—	80%	85%	90%
510(k)s						
• FDA decision (SE/NSE)	90 days	—	—	75%	75%	80%
• First action – "additional information" letter	75 days	—	—	70%	80%	90%
• Second or later action	60 days	—	—	70%	80%	90%
Biologics Licensing Applications - BLAs						
• Review and act on standard original BLAs (issue "complete action" letter)	10.0 months	—	—	—	75%	90%
• Review and act on priority original BLA submissions (issue "complete action" letter)	6.0 months	—	—	—	75%	90%
BLA Supplements						
• Review and act on standard BLA efficacy supplements (issue "complete action" letter)	10.0 months	—	—	—	75%	90%
• Review and act on priority BLA efficacy supplements (issue "complete action" letter)	6.0 months	—	—	—	75%	90%
• Review and act on BLA manufacturing supplements that require prior approval (issue "complete action" letter)	4.0 months	—	—	—	75%	90%
BLA Resubmissions, BLA Supplement Resubmissions						
• Review and act on a Class 1 resubmission to an original BLA or BLA efficacy supplement (issue "complete action" letter)	2.0 months	—	—	75%	80%	90%
• Review and act on a Class 2 resubmission to an original BLA or BLA efficacy supplement (issue "complete action" letter)	6.0 months	—	—	75%	80%	90%

Note: Definitions for the terms used here are provided in Section III of the FDA's Commitment Letter.

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Appendix D: Glossary

Class – Each generic type of device is assigned to one of three regulatory classes based on the level of control necessary to assure the safety and effectiveness of the device:
 Class I - General Controls, Class II - General Controls and Special Controls, and
 Class III - General Controls and Premarket Approval.

Humanitarian Device Exemption (HDE) – An application that is similar to a premarket application (PMA), but exempt from the effectiveness requirements of a PMA. An approved HDE authorizes marketing of a Humanitarian Use Device (HUD).

Investigational Device Exemption (IDE) – An IDE allows an investigational device to be used in a clinical study.

Modular Review Program for Premarket Applications (PMAs) – A mechanism by which an applicant may submit preclinical data and manufacturing information for review while still collecting, compiling, and analyzing the clinical data. A modular PMA is a compilation of sections or “modules” submitted at different times that together become a complete application.

Panel-track PMA Supplement – A supplemental application to an approved PMA or premarket report that requests a significant change in design or performance of the device, or a new indication for use of the device, and for which clinical data are generally necessary to provide a reasonable assurance of safety and effectiveness.

Premarket Application (PMA) – An application providing scientific and medical data to show that a Class III medical device is reasonably safe and effective for its intended use.

Premarket Notification [510(k)] – An application that demonstrates that the medical device to be marketed is substantially equivalent (SE) to a legally-marketed device that was or is currently on the U.S. market.

- **Substantially Equivalent (SE)** – A device is substantially equivalent to a legally marketed device.
- **Not Substantially Equivalent (NSE)** – A device is not substantially equivalent to the already legally marketed device.

Premarket Report (PMR) – A type of premarket application for a reprocessed single-use device.

Product Development Protocol (PDP) – An alternative to a PMA, based on early consultation between the sponsor and the FDA, that leads to a device development and testing plan acceptable to both parties. It minimizes the risk that the sponsor will pursue the development of a device that FDA will not approve.

MEDICAL DEVICE USER FEES

Question. During operation of the medical device user fee program, has the agency been able to determine specific direct and indirect costs of performing the various types of PMA and 510(k) device approvals? Will FDA be able to determine incremental direct and indirect costs that will be associated with improving review times under more aggressive performance goals in the future?

Answer. FDA is engaging with industry and stakeholders as we work on the MDUFMA reauthorization. If the MDUFMA reauthorization results in changes to the performance goals, we will be able to estimate direct and indirect costs. During fiscal year 2005, FDA contracted with Dr. Dale R. Geiger, a recognized expert in the field of government cost accounting, to prepare a report of the costs of FDA medical device review processes. The statement of work for this report did not require Dr. Geiger to make findings and conclusions. Rather, Dr. Geiger prepared analysis for FDA to consider during the MDUFMA reauthorization. Dr. Geiger examined FDA medical device reviews conducted during fiscal year 2003 and fiscal year 2004, including investigational device exemption applications, investigational new drug applications, premarket approval applications, or PMAs, PMA supplements, biologics licensing applications, or BLAs, BLA supplements, and 510(k) premarket notifications.

The methodology employed by Dr. Geiger follows generally accepted accounting principles for U.S. Government reporting entities, and parallels the methodology applied by an earlier Arthur Anderson study that measured PDUFA costs for 1992 and 1993. Dr. Geiger examined both direct and indirect costs, at CBER, CDRH, the Office of Regulatory Affairs, or field, and FDA general and administrative costs. This work will assist FDA with cost analysis in regards to the performance goals resulting from the MDUFMA reauthorization.

Question. What criteria does the agency use to determine the allocation and priority for distribution of staff increases across FDA components, including offices, divisions, branches, regions, and districts resulting from medical device user fees and related Congressional appropriations?

Answer. In the absence of a Congressional directive, FDA allocates medical device user fees and other medical device appropriations to best achieve FDA's public health objectives, the performance goals, and other expectations established under the Medical Device User Fee and Modernization Act of 2002 and its amendments. Resources have been allocated to reflect the workload balance between the Center for Devices and Radiological Health, or CDRH, and the Center for Biologics Evaluation and Research, or CBER. Soon after MDUFMA was enacted, FDA estimated that 83 percent of the device review work was performed in CDRH and 17 percent was performed in CBER. The Field resources associated with each Center are included in these percentages. FDA's fiscal year 2003 to fiscal year 2005 allocations were based on these percentages. FDA is presently reexamining this allocation and expects this examination will result in a higher percentage of MDUFMA being allocated to CDRH.

Field resources are allocated among districts by the Office of Regulatory Affairs, or ORA, according to each district's projected medical device workload. To illustrate the use of workload to determine distribution of resources, CDRH's MDUFMA hiring priorities were established by product group experts who made recommendations about the type and order of new hires that would best contribute to improving the device review process. For example, the CDRH cardiovascular group, which included experts on those types of devices from across the Center, concluded that their highest priority for improving and speeding the review of cardiovascular devices were additional statisticians. Other product review teams—for example, those for in vitro diagnostic devices, ophthalmic and ENT devices, ob-gyn, gastro-renal, and urological devices—identified the priority needs they believed were essential to improving the quality and timeliness of the review process.

POSTMARKET SAFETY ISSUES

Question. At the industry-agency workshop on ongoing efforts to improve post-market safety activities in February of this year, several issues came up that are of potential concern.

With regard to the notion of requiring "unique product identifiers," how would this requirement differ from and improve on the existing device tracking requirements for high risk devices? What technical and labeling issues arise with regard to such a requirement for all devices?

Answer. The device tracking requirement applies to manufacturers of a small set of mostly implantable devices, and intends to ensure that manufacturers can quickly locate defective devices and notify patients. Conversely, the idea underlying unique

device identification, or UDI, is to require manufacturers to apply a unique code to the label of a variety of medical devices, in both human and machine readable formats, like barcodes. When combined with other health information technology efforts, UDI has the potential to provide a number of benefits to improve patient safety. Important potential benefits include the reduction of device-related medical errors through the recognition of compatibility and interoperability issues; facilitating the population of device information in patients' electronic health records; and improving the accuracy of information about marketed devices through the standardized identification of specific devices in adverse event reports. Additionally, an effective system of device identification should allow more efficient recall of defective devices and also assist in fighting counterfeit devices.

The type of information included in the UDI will determine what technical and labeling issues arise. FDA is currently considering the appropriate scope of such information and intends to address these issues in a rulemaking.

Question. With regard to the draft guidance document on requirements for additional information to be included in annual reports, does FDA already have this information in various formats and disparate offices throughout the device center? Would it make more sense for the agency to break down its internal barriers that prevent effective utilization of information already collected by the Center for Devices and Radiological Health?

Answer. The Center for Devices and Radiological Health, also known as CDRH, believes that data and information gathered in the postmarket setting is critical to our continued confidence in the safety and effectiveness of marketed devices. Pre-market Approval, or PMA, annual reports are one of the important tools that FDA relies upon to gather information about the device once it is marketed. For this reason, CDRH is assessing the information provided in annual reports to ensure that these submissions provide meaningful information for the agency and industry to assure postmarket safety. At this time, CDRH has not made a final decision as to the type of information that should be included in a PMA annual report. Once the decision is made, CDRH will take the necessary steps to ensure that the information required in the annual report is not duplicative of other regulatory reporting requirements.

CDRH is also reviewing our internal processes and systems for communicating post-market information across the center. As part of its on-going effort to improve all aspects of post-market safety, CDRH initiated the Postmarket Transformation Leadership Team that consists of CDRH managers and external experts to guide the Center in this effort.

CRITICAL PATH INITIATIVE

Question. FDA is requesting an increase of \$5.9 million for the Critical Path Initiative. This funding is specified for the Center for Drug Evaluation and Research. However, I understand that the Critical Path Initiative is intended to speed the development of all medical products regulated by FDA.

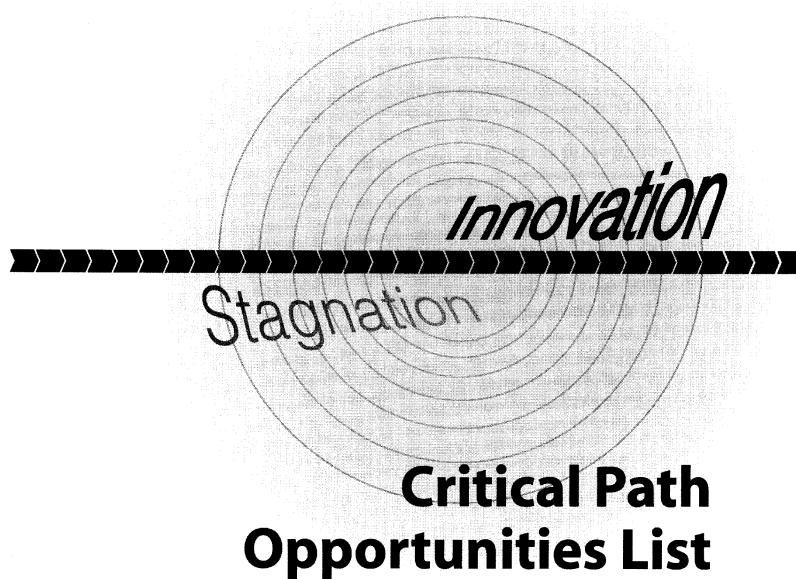
Will the requested funding be made available to other FDA Centers? If so, how much will be made available to each FDA center?

Answer. All FDA centers will participate in Critical Path activities in order to achieve the public health benefits envisioned by FDA in its Critical Path report of March 16, 2004, and the Critical Path Opportunities List announced on March 16, 2006. In fact, several of the projects described in our budget request are cross-center projects, such as work to create a library of digital electrocardiograms, also known as ECGs, that involves both the Center for Drug Evaluation Research and the Center for Devices and Radiological Health.

The Agency is still working with our partners in government, academia, and industry to determine which Critical Path activities, in addition to those identified in our fiscal year 2007 budget request, are the most appropriate activities to fund in fiscal year 2007.

I would be happy to provide for the record the Critical Path Opportunities List that was announced on March 16, 2006.

[The information follows:]



U.S. Department of Health and Human Services
Food and Drug Administration
March 2006

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Critical Path Opportunities List

INTRODUCTION

This report is divided into two parts. The first part of the report (the Critical Path Report and Opportunities List) discusses what has been learned about the opportunities and challenges along the Critical Path from stakeholders and FDA scientists since the publication in March 2004 of the FDA Critical Path Report. The second part of the report (the Opportunities List) presents specific opportunities that, if implemented, can help speed the development and approval of medical products. Both documents are available individually on the FDA's Web site (<http://www.fda.gov/oc/initiatives/criticalpath/>).

TOPIC 1: BETTER EVALUATION TOOLS

Developing New Biomarkers and Disease Models to Improve Clinical Trials and Medical Therapy

Biomarker Qualification and Standards

1. Biomarker Qualification. The process and criteria for qualifying biomarkers for use in product development should be mapped. Clarity on the conceptual framework and evidentiary standards for qualifying a biomarker for various purposes would establish the path for developing predictive biomarkers. Stakeholders, including industry, researchers, and patient groups would have a clear idea of what needs to be done to adopt a new biomarker for regulatory use. Such a framework could stimulate biomarker development and, consequently, shorten the time necessary to develop a successful marketing application.

Identifying the framework and evidence needed to qualify biomarkers for different purposes would put an emphasis on correlative and predictive science to accompany the current emphasis on biomarker discovery. Consensus on the following types of questions is needed to put such a framework in place:

- How can biomarker evidence help demonstrate that a candidate product is not too toxic to test in humans?
- How can biomarkers be used to select dose ranges for initial human testing?
- How can biomarkers be used most effectively to evaluate dose response in later trials?
- What biomarker evidence is appropriate to guide selection of patients for clinical testing?
- What types and levels of evidence are needed to accept a biomarker as a surrogate endpoint for product efficacy?

Similarly, a framework for co-development of a drug and its partner diagnostic could promote biomarker

development and facilitate integration of personalized medicine into clinical practice.

2. Standards for Microarray and Proteomics-Based Identification of Biomarkers. Microarray and proteomic technologies hold vast potential to identify biomarkers. However, a gap exists between technologies in use today and the technological level required for their application during product development and regulatory decision making. This gap results from the limited availability of accepted standards for demonstrating comparability of results, for data normalization and analysis, for validation of array results, or for biological interpretation of significant gene expression changes or mutations. Reference RNA samples that could be used to standardize biomarker results would improve the use of microarray technologies during product development, as would standards for RNA and DNA extraction methodologies and for RNA conversion and labeling. Standards for human tissue RNA and external RNA controls (sometimes referred to as *spikes*) are under development, but standards for the other steps associated with the analysis and interpretation of hybridization data still need to be addressed.

Qualifying Disease- and Disorder-Specific Biomarkers

Asthma

3. Role of Beta Adrenergic Receptor

Polymorphisms in Asthma Treatments. In clinical trials of beta agonists in asthma patients, polymorphisms of the beta adrenergic receptor seem to predict short-term patient deterioration, but information on long-term consequences has not been developed. Studies to evaluate whether receptor status predicts long-term outcomes could help target treatment in this disorder (possibly to avoid serious side effects) and help sponsors develop and test new therapies.

Pregnancy

4. Measures of Effectiveness of Fertility

Treatments. Although number of pregnancies and newborns can serve as rough measures of effectiveness, no reliable markers exist for ovulation induction (e.g., hormone levels, ultrasound determination of follicular development) or other potential predictors of successful pregnancy that could allow early assessment of therapy during product testing and early adjustment of therapy during treatment. Such markers could improve fertility treatment outcomes and reduce toxicity.

5. Markers of Effectiveness of Treatment for Pre-term Labor.

Delay of delivery is the standard measure of the effectiveness of treatments for pre-term labor. But what duration of delay time improves fetal and maternal outcomes? Valid biomarkers would decrease the time needed to study potential therapies, reduce unnecessary risk to study subjects, and help physicians determine the best treatment duration for their patients.

Cardiovascular Biomarkers

6. Surrogate Outcomes for Cardiovascular Drug Eluting Stents. A statistical model for qualifying late loss in lumen diameter as a surrogate measure for cardiovascular drug eluting stent trials could facilitate

the development of these products and enrich the understanding of their long-term effects.

7. Circulating Biomarkers in Cardiovascular

Diseases. A large number of candidate biomarkers for cardiovascular diseases have been identified, but have not been proven useful for product development and regulatory purposes. For example, markers that identify patients at high risk for a cardiovascular event could rapidly improve trial efficiency for interventions intended to prevent such events. Trials could use biomarkers to stratify patient populations by risk status or to limit the study to high-risk patients. New markers that reflect tissue damage or acute inflammation (e.g., troponin sub-types, inflammatory cytokines) could help assess response to novel treatments more efficiently and aid in identifying products most likely to be successful in larger scale clinical trials.

Today, sponsors cannot reliably measure the effects of products intended to reduce inflammation in atherosclerosis without subjecting the patient to invasive procedures. This makes trial enrollment more difficult, increases patient risk and trial costs, and makes study of marketed products very difficult. Developing and qualifying a biomarker for these atherosclerotic inflammatory processes or other aspects of cardiovascular disease would improve innovation in a field affecting millions of Americans. Such markers could also be used in clinical practice to evaluate patient risk and to assist physicians and patients in developing treatment strategies.

Infectious Diseases

8. Proving the Efficacy of Preventive Vaccines.

Proving the efficacy of preventive vaccines can be particularly costly, because of the need to study the disease-preventing effects of candidate vaccines in large numbers of subjects for long periods of time. If surrogate markers of protection, such as measurements of the immune response to vaccines, could be correlated with protection from disease, vaccines against influenza, SARS, West Nile Virus,

smallpox, hepatitis C, and parasitic infections could be developed more quickly and more cost effectively.

9. Markers of Disease Progression in Hepatitis C. Is Hepatitis C viral load in blood an accurate predictor of the pathologic changes and progression of liver disease in patients with Hepatitis C disease? How best can immune responses to the virus infection be distinguished from protective immunity due to vaccination for Hepatitis C? Progress toward more effective treatments and preventive vaccines for this disease could be enhanced with the development of a composite endpoint that includes serologic, virologic, and biochemical components.

10. Testing New Therapies for HIV Infection. Numerous therapeutic agents have been identified that may reconstitute immune function in patients with acquired immunodeficiencies; a serious barrier to their clinical development is the absence of well-understood markers of general immune competence that could predict clinical benefit. Preliminary evidence exists that host immune responses to immunization may serve as a valuable marker for evaluating immune-based therapy in HIV disease. A well-designed study testing the ability of a set of recall antigens and neoantigens to generate antibody responses and class I and class II MHC restricted T cell responses could identify markers that predict general immune competence in this population. Responses could be correlated with HIV viral load, a surrogate marker for clinical benefit in patients with HIV infection.

Cancer

11. Markers of Disease Progression in Prostate Cancer. There are no reliable biomarkers for disease progression in aggressive prostate cancer that have demonstrated utility in product development. Although prostate specific antigen (PSA) is used for a variety of purposes (e.g., determining when further diagnostic testing is indicated, assessing response to therapy), there is no consensus on how best to use PSA in cancer therapeutic trials. Uses of PSA that should be further investigated include identifying high-risk populations, providing an early marker of drug activity and dose range, and use of PSA as a marker of disease progression.

Other markers may also prove more predictive of clinical outcomes in some patients (e.g., alpha-methylacyl CoA racemase expression as a predictor of disease progression in local disease). A gap

analysis to rigorously identify what is proven and unproven about PSA and other potential indicators would be an important first step to improving prostate cancer biomarkers.

12. Drug Targets as Critical Path Tools: Cancer Therapies. Many molecules are being explored as targets for cancer therapy. For example, sponsors are increasingly focused on activity profiles of groups of such molecules associated with aberrant signaling in the proliferation and survival pathways recognized to be disturbed in many types of cancers, such as the SRC pathway and the P13K/Akt pathway. Similarly, cell surface antigens are being explored as targets. Diagnostic tests evaluating the status of therapeutic targets may prove to be useful markers to predict responsiveness to therapy. Availability of markers assessing the status of therapeutic targets would make development of targeted cancer therapies more effective and efficient.

Neuropsychiatric Diseases

13. Diagnostic Markers for Neuropsychiatric Conditions. Today, diagnosis of psychiatric disorders is based on symptom presentation. For example, there are no diagnostic tests to distinguish an initial presentation of depression from the onset of bipolar disorder or other conditions, or to differentiate various subsets of the autism currently joined under the rubric of pervasive developmental disorders. Identification of such markers would improve clinical trials by making it possible for sponsors to enroll only those patients with the target condition. Similarly, any successful treatments could better target a patient's disease in clinical practice. If specific aspects of mental disorders could be better quantitated, sponsors could test therapies targeted to a particular patient's constellation of symptoms. For example, now that the MATRICS test battery for assessing cognitive impairment in schizophrenia has been developed, we expect to see applications for drugs targeted to improving the cognitive component of this disease. Such targeting would both improve the efficiency of trials and serve to better individualize therapeutic approaches.

Presbyopia

14. Clinically Relevant Measures for Efficacy of Accommodating Intraocular Lenses. Presbyopia correction is currently limited to static devices (e.g., bifocal and reading glasses). The ophthalmic community is currently investigating methods to correct presbyopia by restoring active visual accommodation. However, current measurements of accommodation are subjective and unreliable. Identification of objective measures appropriate for clinical trials would improve sponsors' ability to evaluate the effectiveness of devices for the correction of presbyopia and allow reduced subject testing time.

Autoimmune and Inflammatory Diseases

15. Markers of Disease Activity in Systemic Lupus Erythematosus, Inflammatory Bowel Disease, and Related Diseases. Development of new therapies for these diseases has been hampered in recent years by a lack of reliable markers of disease activity that can be used to predict clinical benefit. Development of predictive biomarkers and accepted clinical outcome measures would help in the evaluation of needed new therapies for these diseases.

Safety Biomarkers

16. Predicting Adverse Reactions to Vaccines. Work to identify biomarkers that predict the development of adverse reactions to vaccines, such as autoimmune disease following therapeutic cancer vaccines, could speed the development of these therapies. Similarly, identification of biomarkers that predict the risk of developing enhanced disease following use of certain vaccines, such as SARS, could make such therapies more attractive to product developers.

17. Early Indicators of Effects of Immune Responses on the Safety of Cell and Tissue Products. The potential for these products to prevent or treat diseases is exciting and vast. With this potential benefit comes the risk of an immune response that reduces product efficacy and/or stimulates autoimmune disease. Years of product development can be wasted if a product triggers a detrimental immune response when finally tested in animals or humans. Better and earlier predictors of this undesirable immunogenicity would help unlock the potential of cellular and tissue products, by helping sponsors invest in product candidates least likely to trigger an unwelcome human immune response.

18. Predicting Cardiac Toxicity. New tools for early identification of cardiac toxicity would improve product development for a wide array of conditions. Research investments that could produce tangible benefits quickly include creation of an ECG library from clinical trials that could be used for identifying potential early predictors of cardiac risk.

19. Gene Therapy. Several gene therapy products have been successfully used in early human testing to treat severe diseases, including life-threatening inherited immune deficiencies. However, the future of these products is at risk due to the demonstrated potential for carcinogenesis. Biomarkers to predict the general risk or patient-specific risk for cancer and work to reduce these risks could improve product performance in long-term safety studies of these therapies.

20. Modernizing Predictive Toxicology. Identifying preclinical biomarkers that predict human liver or kidney toxicity would speed innovation for many different types of therapeutics. Activities to develop genomic biomarkers for the mechanistic interpretation of toxicological observations—complementary to but independent of these classic toxicological observations—could begin to create the data foundation for qualification of new safety biomarkers. Collaborations among sponsors to share what is known about existing safety assays could be a first step toward the goal of safer medical products.

Advancing the Use of New Imaging Techniques

21. Performance Standards for Imaging Displays.

The ability to use imaging results as biomarkers would be enhanced by development of standards and performance assessment methods for displays used by newer imaging devices. Compared with older imaging technologies, the displays used by today's digital imaging technologies are complex; in some cases, they are miniaturized to facilitate remote and portable viewing. Common criteria that can assess the performance of multi-dimensional display devices for the presentation of dynamic volumetric image sets with color coding would enhance the understanding of and confidence in imaging results.

22. Using Medical Imaging as a Product Development Tool.

A key hurdle to using imaging as a biomarker in clinical trials is lack of standard protocols for using imaging technologies, ranging from patient positioning to instrument calibration to the settings used for particular images. As a result, sponsors and others cannot compare imaging results across trials, sometimes not even within a trial. This also means it is difficult or impossible to compile data needed to demonstrate that a particular technique correlates with clinical course sufficiently for use as a biomarker. Standard, publicly available, protocols for use of imaging in clinical trials would enable the development of biomarkers for a wide array of conditions.

23. Imaging Biomarkers in Cardiovascular Disease.

To advance efficient development of new therapies, new imaging techniques are needed to measure progression and treatment of cardiovascular disease. Examples include the potential use of intravascular ultrasound (IVUS), MRI, or multi-slice CT in the assessment of atherosclerosis progression and volumetric measures of cardiac function in trials of congestive heart failure. Development of these techniques for measuring progression will require a complete analysis of the current state of knowledge of the imaging modality, standardization of the technical aspects of the measurement, and performing the trials necessary to evaluate the degree of correlation with clinical responses.

24. Imaging Biomarkers in Arthritis. Targeted research could identify how to apply MRI technologies to measure the effects of potential therapies on cartilage and joint soft tissue for rheumatoid arthritis and osteoarthritis. In this regard, MRI has demonstrated promise for detecting soft tissue inflammation and cartilage erosion in rheumatoid arthritis. If established as a reproducible biomarker, use of MRI could help determine the potential of a new therapeutic product, identify dose ranges, and stratify patients by risk while serving as an early response measure.

25. Imaging Biomarkers in Neurocognitive Diseases.

Currently, therapeutic trials in chronic neurologic disorders, such as Parkinson's disease and Alzheimer's disease, rely on symptomatic endpoints that may require observation over many years to evaluate progression. Functional imaging, such as FDG-PET as a measure of glucose metabolism, may provide a biomarker to assess earlier, more subtle, changes in the progression of these diseases. Studies would be needed to determine how these markers correlate with symptomatic progression. Focused efforts to apply new imaging techniques as diagnostic and response measures in neurocognitive disorders and depression could also produce new ways to monitor treatment of these conditions. For example, quantitative MRI measurements as well as amyloid content assessments by PET scan may be useful imaging techniques to demonstrate the effect of potential Alzheimer's therapies. Imaging markers that provide information on early disease states could make prevention trials more feasible. These approaches have not yet been proven clinically meaningful, however, and, in many cases, there is no consensus on the most promising approach.

26. Imaging in Cancer. Cutting edge imaging techniques hold vast potential for tumor staging and assessing response to therapy. The list of promising biomarkers in need of qualification is long. For example, it is possible that one additional, well-designed study could qualify FDG-PET as an additional response measure in non-Hodgkins lymphoma, thus creating a new tool that improves both product testing and treatment decisions. Similar opportunities exist for other tumor types.

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27. Imaging in Chronic Obstructive Pulmonary Disease. High-resolution chest computed tomography may be a useful assessment of disease progression in chronic obstructive pulmonary disease where emphysema is a prominent component, especially the disease associated with alpha 1 anti-trypsin deficiency. Although data to date suggest that high-resolution CT (HRCT) can offer reliable assessment of underlying lung structure in fewer patients and for shorter periods of time than would be needed to show a difference in lung function testing or in mortality, it remains unclear if changes in HRCT meaningfully predict change for the patient. It also is unclear what level of change in the HRCT parameters could be considered significant in terms of disease modification. The ability to use HRCT demonstration of disease modification as an endpoint in clinical trials could pave the way for new product indications that are now infeasible due to the rarity of alpha 1 anti-trypsin deficiency and the trial size and duration needed to show an effect using traditional endpoints. New trials, perhaps with innovative designs, are needed to evaluate the use of imaging techniques in rare conditions.

28. Noninvasive Therapeutic Monitoring. Today, the distribution of a drug in the human body is typically evaluated by measuring its concentration in

the blood, which may not accurately reflect distribution to the target tissue (e.g., an infected bone, a tumor, or a malfunctioning organ). Noninvasive means of monitoring drug concentration, for example, using molecular tags that can be located through imaging techniques, could dramatically improve product development by enabling sponsors to correlate response with drug availability at the target site and to evaluate the relationship between organ toxicity and drug distribution to that organ.

29. Imaging Implanted Devices. *Practice guidelines* should be developed that outline the nature and frequency of imaging needed to follow the on-going safety and efficacy of an implanted device, when to suspect a problem, and what confirmatory tests are recommended. Such guidelines could not only improve patient safety but could also produce pooled data to inform premarketing development and testing of the next generation of implanted devices. (*Practice guidelines* are developed by professional associations on specific topics to help healthcare professionals make treatment decisions.)

Improving Predictions of Human Response from Disease Models

30. Improving Extrapolation from Animal Data to Human Experience. We urgently need new methods to bridge from animal data to predicted human experience, for both product efficacy and for product safety. The need is particularly acute for situations in which it is unethical to conduct human tests (e.g., therapies against bioterror agents). Establishing reliable correlations between animal pharmacokinetic/pharmacodynamic data and human outcomes would dramatically improve the safety of human testing and treatment and the ability of sponsors to invest in only those candidate products most likely to be effective in humans. Conversely, re-examination of existing data could identify features of preclinical studies that were not predictive of human response. We especially need more predictive preclinical models for therapies that use innovative delivery mechanisms (e.g., image guided interventional therapies, or local delivery of therapy

via percutaneous catheter) and for combination therapies.

31. Better Model of Wound Repair. The lack of a reliable animal model for human wound healing is a significant hurdle to developing new wound repair products.

32. Better Animal Disease and Tissue Injury Models. Better animal disease or tissue injury models could provide more accurate predictions of the toxicity of drugs, devices, and biological products that are used in ill or injured patients. Use of such models could also enhance our understanding of the potential toxic effects of compounds associated with many types of medical devices (some devices may expose patients to sterilants, disinfectants, plasticizers, and metals).

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33. Better Disease Models for Predicting Biological Product Toxicity. Better predictive disease models to support the development of more quantitative cellular, or molecular, toxicity testing paradigms for product safety evaluation would improve development of many biological products. For example, development of an in vitro cell-based system to evaluate and predict the toxicity of hemoglobin-based oxygen carriers would help identify some of the serious safety issues surrounding these products.

TOPIC 2: STREAMLINING CLINICAL TRIALS

Creating Innovative and Efficient Clinical Trials and Improved Clinical Endpoints

Advancing Innovative Trial Designs

34. Design of Active Controlled Trials. Many clinical trials compare two or more active therapies, rather than comparing an active therapy with placebo. This design is being increasingly used as more therapeutic choices become available. When treatment options exist, it may be unethical or infeasible to ask patients to take a placebo. Today, there is confusion regarding key statistical issues underlying design and analysis of active-controlled trials. In placebo controlled trials, the question is whether the active treatment is highly likely to be superior to placebo.

In active controlled trials, the question is often whether the new treatment is highly unlikely to be inferior to the comparator. Such trials are called non-inferiority trials. Statistical methods for demonstrating non-inferiority can be challenging. We need to reach agreement and clarify appropriate statistical methods and standards for such trials to facilitate product development in a wide array of conditions for which non-inferiority trials are used. Issues that need clarifying include:

- How should the confidence interval for demonstrating non-inferiority be determined?
- What data should be used to estimate the effect of the control agent (e.g., all prior studies?) How should they be weighted?
- What drugs should be included as the active control? How should inconsistent results (i.e., size of treatment effect) from prior studies of the active control be approached?
- What are appropriate sample size requirements in non-inferiority and active-controlled studies?

Non-inferiority trials rely in part on prior studies to estimate the assumed treatment effect of the comparator. In some conditions, however, only a single trial is required for drug approval. This is often the case for new cancer therapies. New methods for conducting non-inferiority trials are needed for cases when prior data are insufficient to estimate the effect of a therapy. For example, it might be possible to use biomarker data to circumvent some of these difficulties.

35. Enrichment Designs. If biomarkers can reliably identify individuals with a high probability of response to a therapy, trials could focus on such patients. Conducting a trial in a potential high-response subgroup is called *enrichment*. Enriched trials have greater power and could result in therapies targeted at those most likely to benefit. Enrichment raises some difficult issues:

- How will data on the marker status of potential trial enrollees be used in trial design?
- How much data are needed on the un-selected population?
- What types of retrospective subset analyses are valid (e.g., what can be reliably learned from subgroup analyses that were not prespecified in the original trial design)?

36. Use of Prior Experience or Accumulated Information in Trial Design.

Adaptive Trial Design

Stakeholders are looking for clear rules on when it is valid to make changes to a clinical trial protocol, based on early or interim study results, when unblinded treatment results may be known.

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Consensus and clarification is needed on questions such as:

- When can extra trial arms be dropped?
- When can an early marker be used to choose which treatment to carry forward or to choose a subset for analysis?
- When is it valid to modify randomization based on results, for example, in a combined phase 2/3 cancer trial?
- When is it valid and under what situations can one stage or phase of a study be combined with the second stage or phase?

Non-Frequentist Methods

Statistical techniques that allow for increased reliance on historical data, under assumptions and models that can be justified, might be used to develop predictive inferences. The use of these techniques in product development holds promise, but work remains to adapt and qualify such methods for use to answer specific product development questions for both clinical and preclinical applications. For example, we urgently need to improve use of animal data to predict human experience (see Opportunity 30). Many believe that Bayesian and similar non-frequentist statistical methods that use empirically derived prior information and models to develop predictive probabilities could provide a basis for supplementing the traditional methods for human equivalent dose calculations and for maximizing the usefulness of data derived from animal safety and efficacy studies.

37. Development of Best Practices for Handling Missing Data.

All clinical research studies experience some level of subject attrition, ranging from a few patients to more than half of the study subjects. When patients are lost to follow-up, an intent-to-treat analysis requires imputation of missing data. Depending on the extent of the imputation, the validity of the trial results can come into question, causing delays and possibly unnecessary failures. There is increasing dissatisfaction with one common approach, Last Observation Carried Forward (LOCF), and broad agreement that alternatives are needed. Evaluation of different analytical approaches (e.g., testing potential alternative to LOCF against existing data sets) and development of consensus on how to impute missing data in a variety of different situations would enhance efficiency of product development in nearly every therapeutic area.

38. Development of Trial Protocols for Specific Therapeutic Areas.

Consensus on trial designs that

are tailored to specific diseases or conditions (e.g., how to select participants, structure of the trial, outcome and endpoint measures, duration) would facilitate development. For example, new clinical trial designs and end-points for age-related macular degeneration therapy trials could unleash innovation in this area of unmet medical need. Some suggest that it will be possible to develop a library of standard disease-specific trial protocols. For example, the assessment of drugs for their abuse liability is an important societal and development concern and requires the conduct of specific clinical trials. The available data need to be reviewed and discussed to develop guidance on the best ways to conduct those trials.

39. Analysis of Multiple Endpoints. In many diseases, more than a single efficacy endpoint may be of importance. Stakeholders are looking for clarification on appropriate statistical methods for handling multiple trial endpoints. Key issues include the statistical implications of requiring success on more than one endpoint, appropriate statistical adjustment when endpoints are correlated, and handling of secondary endpoints. Stakeholders are also looking for clarification of appropriate methods for sequential analyses of endpoints.

Improving Measurement of Patient Responses

40. Measuring Disease-Related Symptoms. For many diseases, it is possible to measure a variety of important indicators, but there are no rigorous or standard measures of disease symptoms. As a result, important information about patient response may be poorly captured and described. For example, standardized outcomes and endpoints are needed for symptomatic gastrointestinal disorders, psoriasis, and atopic dermatitis. Pain scores are needed for abdominal disease, irritable bowel syndrome, and endometriosis.

41. Measuring Patient-Centered Endpoints. Identifying endpoints of value to patients and integrating them into clinical trials would make trials more effective by improving the connection between trial results and clinical improvement. Today, however, it is often unclear which signs and symptoms matter most to patients and, in many cases, there are no standard agreed-upon scales to measure patients' preferred endpoints. This issue has been raised for diseases ranging from Parkinson's disease to COPD to lung cancer. More rigorous methods for determining and measuring patient priorities in clinical testing would provide more pertinent information than the broad measures of quality of life typically used today.

42. New Trial Design in Oncology. Most cancer trials identify and test the maximum tolerated dose, to maximize efficacy. Such trials cannot answer key questions about dose/response relationships: Do

blood levels of drug relate to outcomes? At what dose does the response plateau? Because survival is often their primary endpoint, cancer trials are not designed to identify potential response measures that change early in treatment. New trial designs that allow a better understanding of concentration response, as well as early indicators of response, could improve the safety of both cancer trials and cancer therapy.

43. Improving Efficacy Endpoints for Infectious Diseases. Typically, to determine whether an antibiotic or vaccine is effective against a particular pathogen, the presence or levels of the infectious agent in the patient are followed. However, the presence of a pathogen does not always correlate with illness, and the purpose of some vaccines is to arrest the disease process, rather than prevent infection or clear the infectious agent. For many infections, there is no consensus on what patterns of symptoms define the disease. Therefore, it is difficult to measure how an experimental product affects the disease. Consensus on what changes in symptoms could constitute a benefit in the treatment of infectious disease and how to measure them would significantly improve efficacy endpoints in clinical trials of agents that target certain infectious diseases. Similarly, studies of the natural history of specific infections could provide reliable data on the likely length of the infections to help sponsors design trials in which efficiency endpoints can be measured sooner.

Streamlining the Clinical Trial Process

44. Development of Data Standards. Currently, clinical investigators, clinical study personnel, data managers, and FDA reviewers must cope with a plethora of data formats and conventions. Some clinical investigators report the presence of many different computer systems for data entry at their sites (for various trials), each of which uses different data conventions. Lack of standardization is not only inefficient, it multiplies the potential for error. Important standards work is underway, but much

remains before the promise of shared data standards for clinical trials is realized. CDISC is paving the way by developing its Study Data Tabulation Model for describing observations in drug trials.¹ That model could someday encompass observations needed for other types of trials. Health Level 7 and CDISC are working to create standards that can be

¹ For more on CDISC (the Clinical Data Interchange Standards Consortium), see <http://www.cdisc.org/>.

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used for the exchange, management, and integration of electronic healthcare information to increase the effectiveness and efficiency of healthcare delivery.² In addition to improving and expanding the Model, sponsors and the FDA must undertake the hard work of retooling hardware and software to apply the new standards. This retooling includes training researchers to collect and FDA reviewers to expect data in these formats. Standardizing data archiving conventions would also enable the creation of shared data repositories, facilitating meta-analyses, data mining, and modeling to improve clinical trial design and analysis.

45. Consensus on Standards for Case Report Forms. Clinical trial data collection, analysis, and submission can be inefficient and unnecessarily expensive. A wide array of different forms and formats are used to collect clinical trial information, and most data are submitted to the FDA on paper. Differences in case report forms across sponsors and trials creates opportunities for confusion and error. Standardization of the look and feel of case report forms could reduce these inefficiencies and also help accelerate progress toward electronic data capture and submission.

² See also <http://www.hl7.org/>.

TOPIC 3: HARNESSING BIOINFORMATICS

Data Pooling and Simulation Models

46. Identification and Qualification of Safety Biomarkers. Collaborative efforts to pool and mine existing safety and toxicology data would create new sources for identification and qualification of safety biomarkers. For example, a robust database of preclinical and clinical data on cardiac arrhythmic risk could help us understand the clinical significance of QT interval prolongation, reduce the need for clinical studies, and, possibly, help identify individuals who are at risk for this side effect. Similarly, evidence-based simulation models of drug metabolism that correlate preclinical and clinical toxicity, and new criteria for use of such models, would enable sponsors to make smarter dose selection decisions for clinical trials and promote development of more predictive safety biomarkers.

47. Virtual Control Groups in Clinical Trials. Databases, models, and/or imaging collections could be used by multiple sponsors across different product types as historical controls to reduce the necessary size of control groups in clinical trials. This approach would be of particular benefit to product development for rare disorders when sponsors cannot find a large number of patients to study. These techniques would also be of special benefit in instances when use of placebos is infeasible or unethical. Trusted third parties could be used to hold data or images and create an open source library. For example, today it is impossible to test a new drug as monotherapy in epilepsy. Patients need to maintain existing therapies, so new therapies can only be studied in combination with existing drugs. Use of historical controls might enable sponsors to demonstrate effectiveness of a new drug as monotherapy if the data could be assembled and rigorously analyzed.

48. Adverse Event Data Mining. Combining adverse event data related to a product, a class of products, or a disease could enable identification of previously undetected patterns of safety events and/or

comorbidities and could elucidate drug-drug interactions. This knowledge could then be applied to investigational products to better avoid known safety pitfalls.

49. Multiple Complex Therapies. Pooled data on the effects of combined use of complex technologies—for example, multiple implanted devices, microwave therapy to coronary vessels followed by a stent, or radiation therapy in a person with an implanted device—would create information that would improve both patient safety and new product development.

50. Modeling Device Performance. A rigorous model of specific aspects of human physiology could allow more predictive in-silico (computer-based) testing of implanted devices, prior to human testing. Such models could also yield information about the likely long-term performance of implanted devices to identify problems that may occur beyond the time periods studied in clinical studies and could answer current questions about device failures. Simulation technologies that model the physiological environment and dynamic forces acting on an implanted device could also provide information to bridge gaps in knowledge when clinical testing is difficult, such as with pediatric populations. For example, computer modeling of pediatric cardiac physiology could streamline development of devices for this population.

51. Clinical Trial Simulation. Clinical trial simulation—using in silico modeling—can predict efficient designs for development programs that reduce the number of trials and patients, improve decisions on dosing, and increase informativeness. Clinical trial simulation requires the development of a disease model, with subsequent integration of information on the investigational product. Such models could also help refine some of the innovative trial designs described in Topic #2, above.

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Stakeholders are looking for first steps, such as identification of tools and best practices.

52. Failure Analysis. Development of a public database of information from trials of unsuccessful products could allow identification of patterns associated with failure and help sponsors avoid repeating past mistakes. Failure analysis is a routine and rigorous aspect of engineering and other applied sciences. Combining efforts to learn more about the causes of problems—using anonymized, safe harbor methods—would provide the best opportunity to create useful generalized knowledge.

53. Natural History Databases for Rare Diseases. Many rare diseases are hard to study due to both the difficulty in enrolling subjects and the long duration of clinical trials. Databases recording the natural history of patients with rare diseases, incorporating observations on clinical progression and biomarkers, could assist in creating disease models and better designing clinical programs and, possibly, contribute virtual historical control groups

TOPIC 4: MOVING MANUFACTURING INTO THE 21ST CENTURY

Manufacturing, Scale-up, and Quality Management

Manufacturing Biologics

54. Improving Manufacture of Influenza and Other Vaccines. The use of poultry eggs to produce influenza vaccine has been associated with a variety of public health problems, ranging from limitation on vaccine supply (due to the process needed to grow vaccine stock in eggs) to product contamination. A well-characterized and publicly available library or banks of cell lines certified to be free from adventitious agents, known to remain genetically stable, with documented low risk for tumorigenicity, and known to grow easily for scaled-up manufacture would resolve this key hurdle to innovation in development of cell-based influenza vaccines. Such a cell bank would also promote more efficient development of other biological products, including therapeutic protein products, gene therapy products, and other types of vaccines.

55. Characterizing Cell Therapies. Cell therapies hold tremendous promise for treating an array of conditions, ranging from heart muscle disorders to brain disease. To date, there are no cell therapy biomarkers that accurately establish the essential characteristics of cord blood stem cells used to treat cancer and radiation injury, pancreatic islet cells used to treat diabetes, and cardiac cells derived from stem cells for treatment of heart disease. Additionally, cell therapies present special safety concerns. For example, there is risk that the administered cells will migrate to the wrong tissue, or settle into the right tissue but over time develop into cancer cells. Scientific tools are needed to better characterize the cells to ensure that cell therapies will reliably travel to and stay in the appropriate tissue and will develop into normal healthy cells.

56. Novel Approaches to Characterizing and Standardizing Biological Products. New methods of measuring the physical characteristics of biological products, such as nuclear magnetic resonance, x-ray crystallography, and/or mass spectroscopy could be used to provide a link between the physical characteristics measured by these tests and the clinical outcomes. Today, these techniques remain underused, pending scientific and consensus development work to understand how physical characteristics predict the purity and performance of biological products.

57. Detecting Contamination in Biological Products. A significant scientific hurdle in developing biological products is contamination with undesirable infectious agents, because the product is developed from living organism sources that may harbor these pathogens. To demonstrate that the product is safe for human use, sponsors must be able to detect contamination from viruses, bacteria, and other organisms that are found in living organisms (e.g., the prion agent of *mad cow* disease). New microarray technologies hold promise for detecting contamination—deliberate or accidental—of biological products. But more work needs to be done in this important field.

58. Enabling Manufacturing Changes for Well-characterized Proteins. Currently, production scale-up can be a rate-limiting step in the development of investigational proteins. New tools are needed to predict and assess the effect of manufacturing changes on product performance and to assess comparability to product made using previous processes. Availability of such tools could improve

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development efficiency and early patient access to investigational proteins.

59. Tissue Engineering. A key hurdle holding back innovation in tissue engineering is the difficulty in sufficiently characterizing a finished product to enable development of meaningful quality controls and release specifications. Often, conventional techniques, such as simple cell morphology, used to evaluate cell characteristics cannot be applied to these products because, for example, the engineered

product may also include nonbiological materials (e.g. a support matrix). Consensus on how to assess these products and ensure manufacturing consistency would give product sponsors the predictability they need to unlock innovation in tissue engineering.

60. Vaccine Potency. Improved, more quantitative and reliable non-animal based tests of vaccine potency would assist in development of vaccines for conditions such as rabies and smallpox.

Manufacturing Devices

61. Device Interaction with Blood Flow. Better predictive modeling of the shearing forces and rate of thrombosis caused by implanted devices would enable innovation in physical design and materials.

62. Development of a Biocompatibility Database. A publicly accessible database of the biocompatibility profile of materials used in the design and manufacture of implanted medical devices would facilitate continuous improvement in design of these products.

Manufacturing Drugs

63. Identifying Safety Effects of Excipients. Inactive ingredients in drugs have been identified as the cause of safety problems and, in some cases, have stalled progress or caused product development to fail. Earlier studies of the safety effects of excipients would allow sponsors to identify problems before making significant investments in testing a particular formulation.

64. Manufacturing Novel Dosage Forms. Examples of novel dosage forms include patches, liposomes, topicals, and nasal and pulmonary inhalers. Such products are developed to target delivery of drugs, improve compliance and ease use for patients, and deliver drugs that are difficult to formulate. It can be difficult to assess the quality of a manufactured product. For example, extracting a drug from patch products for quality assurance analysis can cause changes in the product. Aerosol quality is affected by difficult-to-measure characteristics such as spray density. New methods and testing instruments for consistent manufacture of such products are needed. Similarly, existing analytical techniques are often not designed to assess the quantities or forms of drugs found in some drug-device combination products.

65. Developing Standards for Spectroscopic Instruments. A number of rapid, noncontact, nondestructive, data-rich analytical methods that are new to drug manufacture could be more widely used if accepted scientific standards to ensure proper operation of instrumentation were developed. For example, studies to identify appropriate instrument qualification and calibration standards for new techniques such as Raman and Terahertz spectroscopy—to specify both a suitable set of material samples along with a corresponding set of specifications determined by a common statistical procedure—could dramatically improve manufacturing quality and predictability.

Nanotechnology

66. Characterizing and Qualifying

Nanotechnologies. Nanotechnology holds huge promise for the design and manufacture of many types of novel medical products—from devices to therapeutics to combination products. There remain, however, a number of questions about the behavior of nanoparticles and the potential effects of products containing nanoparticles once they are introduced into complex human physiology. We need to better

understand the physical and chemical characteristics of different nanomaterials, and we need new test methods, characterization protocols, and standards so sponsors can efficiently move nanoproducts from preclinical through clinical development, to commercialization.

TOPIC 5: DEVELOPING PRODUCTS TO ADDRESS URGENT PUBLIC HEALTH NEEDS

Rapid Pathogen Identification

67. Improving Anti-Microbial Product Testing. New scientific technologies hold the potential for developing rapid, point-of-care tests for pathogen identification. These technologies could also improve the speed and accuracy of resistance testing. Use of rapid diagnostic tests (either a single test or a panel of tests) could greatly improve the efficiency of clinical trials for infectious diseases.

68. Screening Donated Blood and Tissue. Research to adapt these new technologies for rapid pathogen identification would also facilitate the development of novel screening tests for biological products. Of particular interest in screening donated blood and tissue are technologies that can perform rapid analysis for multiple organisms, on smaller quantities of blood and tissues. In a public health emergency involving infectious agents, such screening tools would be a key bulwark against the risk of inadvertent or deliberate transmission of infection to recipients of donated blood and tissues.

Better Predictive Disease Models

69. Animal Models to Test Bioterrorism Countermeasures. Today, limited animal models exist for determining biological activity of anthrax lethal toxin, and those that are available have questionable relevance to the mechanism of action of this virulence factor in humans. A nonhuman primate model for testing the efficacy and safety of antibiotic treatments and vaccines against inhaled anthrax—the most likely route of exposure to this agent in the case of a bioterror attack—would facilitate development of such products. New animal models more appropriate to the human condition also are needed for smallpox infection, radiation injury, and SARS.

70. New Small Animal Models for Vaccine Testing. Developing new small animal models to replace current primate models would greatly facilitate the development of vaccines for potential

bioterror agents and emerging or re-emerging infectious disease (because many primate models are expensive and have not been qualified). Of particular interest are new small animal models that predict the neurotoxicity of vaccines.

71. New Tissue Models. Before a product is tested in animals, it is tested in living cells in the laboratory. A major hurdle facing the development and evaluation of vaccines for emerging viral diseases, such as West Nile virus, SARS CoV virus, and smallpox virus, is the lack of a tissue culture assay that quantitatively measures and reliably predicts the protective immune response to candidate vaccines. Similarly, better cell culture systems to study the hepatitis C virus are needed to improve progress toward a hepatitis C vaccine.

TOPIC 6: SPECIFIC AT-RISK POPULATIONS — PEDIATRICS

Unlocking Innovation in Pediatric Products

72. Better Extrapolation Methods and Best Practices in Pediatric Trial Design. Pediatric product testing often begins with extrapolating safety and efficacy data from adult experience to determine the dose and administration schedule to be tested. During the past several years, a substantial number of pediatric trials have been conducted using this approach. If the data from those trials could be compiled into a database for quantitative analysis, sponsors could exploit past experience to assess the accuracy of different methods of extrapolation and reveal the most effective methods. Analysis of such a database could reveal best practices for other aspects of pediatric trial designs as well, enabling sponsors to avoid repeating less useful or inefficient trial designs. As a result, fewer children would be exposed to unnecessary or suboptimal clinical studies.

73. Drug Metabolism and Therapeutic Response. It is likely that differences in drug metabolism among adolescents affect their responses to antidepressant drugs. With improved knowledge, sponsors could tailor drug doses being tested to the study participants according to their drug metabolic genotype. The hard work of identifying specific genetic polymorphisms and signals in children and teens that predict a heightened risk for adverse events or nonresponse to treatment is in the early stages. Improving dosing could reduce side effects and increase successful outcomes.

74. Diagnosing Depression Subtypes. Many scientists and clinicians believe that depression (including adolescent depression) is not a single disease, but a collection of several related but biologically distinguishable conditions. However, there has been little success in furthering our understanding of the genetic/physiologic basis of depression. Better clinical definitions of depressive subtypes, along with better tools for classifying individuals, should help in achieving the goal of

developing treatments targeted to the adolescent's particular syndrome. For example, advanced imaging techniques targeting neurotransmitter activity may be able to identify depressive subtypes. Unfortunately, the best first steps toward this mechanistic understanding of depression have yet to be identified.

75. Animal Models for Maternal Vaccines. In the first few weeks of life, infants may be exposed to respiratory syncytial virus, group beta hemolytic streptococcus, and *E. coli* bacteria. Even if a vaccine existed, several weeks are required post-vaccination to develop a protective response, leaving infants at risk during that time. One approach to this public health issue would be safe and effective maternal vaccination, in which the pregnant woman develops a protective antibody response that is transferred to the fetus through the placenta or to the infant through breast-feeding. Obvious fear of the risks of exposing a fetus to vaccines and the associated immune stimulation have limited development of such approaches. Development of animal models to evaluate the safety outcomes of maternal vaccination on infants could unlock innovation and eventually lead to products that reduce illness and death due to infant infections.

76. New Therapies for Juvenile Diabetes. Development of an artificial pancreas for children (and adults) with diabetes could be accelerated by creating new clinical protocols (based in part on reassessing clinical outcomes from prior research) and improved outcome measures for evaluating the performance of continuous glucose sensors and a closed loop artificial pancreas. This work could also revolutionize diabetes care and management.

L-18

REUSE OF SINGLE-USE DEVICES

Question. Last summer, Congress passed the Medical Device User Fee Stabilization Act to continue the medical device user fee program, adjust user fees, and tighten up branding provisions related to reprocessed devices.

How soon will FDA issue the final guidance related to reprocessed devices?

Answer. We hope to issue the final guidance shortly.

Question. Will the final guidance differ significantly from the current draft?

Answer. Because the guidance has not yet been finalized and cleared, we cannot say whether or not it will differ significantly from the current draft.

Question. Will the final guidance assure that reprocessed single-use devices are adequately marketed so reports of malfunctions and serious injuries are reported correctly during the entire time a particular device is being reprocessed or reused?

Answer. Yes. FDA believes that the final guidance will be adequate to ensure that reprocessed single-use devices are adequately marked to ensure that reports of malfunctions and serious injuries are reported correctly during the time a reprocessed device is used.

Question. Will the FDA ensure that the labels that meet the branding requirements actually make it in to the patient chart when used by a hospital?

Answer. FDA's primary task will be to ensure and monitor that reprocessed single use devices include the appropriate identification and labeling. The hospitals and other facilities that use these devices will have responsibility for ensuring that health care personnel attach labels to patient charts as appropriate. FDA intends to work with manufacturers, hospitals, and the Joint Commission for the Accreditation of Health Organizations to do outreach and encourage health care facilities to establish procedures to ensure that these labels are properly attached to patient charts.

Question. Recent media attention to the reprocessing of single use devices has raised many concerns about the practice. The original Medical Device User Fee and Modernization Act required the FDA to review the most commonly reprocessed devices. The FDA reviewed a small subset of reprocessed single use devices and nearly 50 percent of the reviewed devices were either withdrawn or were declared not-substantially-equivalent.

What is FDA doing to ensure patient safety is not compromised by the use of reprocessed single use devices? Can FDA do more to ensure patient safety is not compromised by the use of these reprocessed single use devices?

Answer. FDA implemented the new premarket requirements put into place by the Medical Device User Fee Act, or MDUFMA, for reprocessed single-use devices, also known as SUDs. Manufacturers who intend to reprocess certain types of SUDs must now submit premarket 510(k) notifications for these devices which contain validation data on cleaning, sterilization and functionality. The additional premarket requirements apply to reprocessed SUDs determined to be high risk for transmission of infection or inadequate function following reprocessing, involving those reprocessed SUDs intended to come into contact with tissue at high risk of being infected with the causative agents of brain-wasting Creutzfeldt-Jakob disease. The reprocessed SUDs that are subject to the additional premarket requirements noted include 21 device types that were previously exempt from premarket notification requirements, and 52 device types that were already subject to 510(k) premarket notification requirements, but were not previously required to submit validation data.

FDA's postmarket oversight of reproducers of SUDs includes inspections of manufacturing operations and review of adverse event reports. Since August 2000, FDA has inspected 29 reprocessing companies and over 200 hospitals to ensure that the third party reproducers are following quality system regulations and that any hospitals engaged in reprocessing are also in compliance with these manufacturing requirements. During that time period, FDA issued eight warning letters to third party reproducers and obtained two injunctions against firms. FDA issued regulatory correspondence outlining violations to four hospitals but has found that most hospitals are no longer reprocessing SUDs. In fiscal year 2005, FDA inspected seven reprocessing companies and found all of them in substantial compliance with applicable regulations.

FDA continues to review adverse events submitted by manufactures, user facilities and the general public for problems associated with reprocessing of single use medical devices. FDA changed its MedWatch reporting forms to make it easier for device users to inform the agency when a reprocessed SUD is associated with an adverse event. In addition, FDA recently issued draft guidance to implement the provision of the Medical Device User Fee Stabilization Act, or MDUFSA, that requires reproducers to ensure that each SUD clearly identifies the reproducer. The new provision, which will go into effect in August 2006, is intended to facilitate accurate reporting of adverse events involving reprocessed SUDs.

FDA believes the measures Congress put into place for reprocessed single use devices under MDUFMA establish appropriate controls to provide reasonable assurance of safety and effectiveness for these devices. The controls, which include additional data requirements, premarket review, and labeling provisions, have supplemented the inspection and enforcement authorities FDA already had in place.

FDA DETAILEES

Question. Please provide information on the FDA detailees sent to work in the Congress over the past 10 years, including the office they work in at FDA, the office they were or are detailed to in the Congress, the length of service, and FDA's policy on providing detailees to the Congress.

Answer. I would be happy to provide that and the HHS Instruction 300–3, Detail of Employees for the record.
[The information follows:]

FDA DETAILEES

Name	FDA offices	Detail location	Length of detail
David Dorsey, J.D	Office of the Commissioner; Office of the Chief Counsel.	Senate Health, Education, Labor, and Pensions Com- mittee.	Jan. 2001-Present
Dr. Brian Harvey	Center for Drug Evaluation and Research Office of New Drugs.	White House, American Polit- ical Science Association Congressional Fellowship.	Oct. 2000–Oct. 2001
Stacy M. McBride	Office of the Commissioner; Office of Management.	Senate Appropriations Sub- committee.	April 2005–Nov. 2005
Dr. Kevin Mulry	Center for Devices and Radio- logical Health; Office of De- vice Evaluation.	Office of Senator Richard Dur- bin Office of Legislative Af- fairs.	Jan. 1998–Aug. 1998
Thomas B. O'Brien	Office of the Commissioner; Office of Management; Of- fice of Financial Manage- ment.	House Appropriations Com- mittee.	Feb. 2004–Nov. 2004 Jan. 2005–Feb. 2006
Dr. Donna-Bea Tillman	Center for Devices and Radio- logical Health; Office of De- vice Evaluation.	Congresswoman Louise Slaughter-New York.	Jan. 2000–July 2000
Lisa Siegel	Office of the Commissioner; Division of Budget Formu- lation and Presentation.	House Agriculture Appropria- tions Subcommittee.	Feb. 1999–Oct. 1999
Maureen Holohan	Office of the Commissioner; Office of Planning.	House Agriculture Appropria- tions Subcommittee.	Feb. 2000–Oct. 2000
Margaret Carlson	Center for Food Safety and Ap- plied Nutrition.	Senate Health, Education, Labor, and Pensions Com- mittee.	Mar. 2002–Jan. 2004
Dennis Strickland	Center for Biologics Evaluation and Research; Office of Communication, Training and Manufacturers Assist- ance.	Office of Senator William Frist (Brookings Legislative Fel- lows Program).	Jan. 1996–Dec. 1996
Tracy Summers	Center for Food Safety and Ap- plied Nutrition; Office of the Director.	Office of Senator Edward Ken- nedy FDA Desk.	Aug. 1999–Nov. 1999
Diane Prince	Office of the Commissioner; Office of Legislative Affairs.	House Energy and Commerce Subcommittee.	May 1998–Jul. 1998
Jeff Shuren	Office of the Commissioner; Office of Policy.	Senate HELP Committee Office of Senator Edward Ken- nedy's Office.	Nov. 1999–Nov. 2000
Theresa Mullin	Office of the Commissioner; Office of Planning.	Office of Senator Byron Dorgan	Mar. 2000–Aug. 2000
Dave Doleski	Center for Biologics Evaluation and Research; Manufactur- ers Branch II.	Office of Senator Paul Wellstone (Brookings Legis- lative Fellows Program).	Jun. 1999–Dec. 1999
Serina Vandegrift	Office of the Commissioner; Office of Policy.	Senate Agriculture Committee (Chairman Cochran).	Jan. 2004–Jan. 2005
Tim Lynagh	Office of the Commissioner; Office of Legislation.	Office of Congressman Chris Smith.	2003
Mike Skonieczny	Office of the Commissioner; Office of Legislation.	Office of Congresswoman Rosa DeLauro.	2001

HHS TRANSMITTAL 96.2

PERSONNEL MANUAL

Issue Date: 2/22/96

Material Transmitted.—HHS Instruction 300–3, Detail of Employees (pages 1–3)*Material Superseded.*—HHS Instruction 300–3 (all).

Background.—This Instruction has been substantially streamlined in accordance with National Performance Review recommendations, and in support of HHS administrative initiatives calling for more streamlined rules and greater delegations of authority.

Any reference to “OPDIV” in this Instruction now includes the PHS agencies, the Office of the Secretary, the Program Support Center, HCFA, ACF, and AOA.

This issuance is effective immediately. Implementation under this issuance must be carried out in accordance with applicable laws, regulations, and bargaining agreements.

Filing Instructions.—Remove superseded material and file new material. Post receipt of this transmittal to the HHS Check List of Transmittals and file this transmittal in sequential order after the check list.

JOHN J. CALLAHAN,
Assistant Secretary for Management and Budget.

INSTRUCTION 300–3

DISTRIBUTION: MS (PERS): HRFC–001

HHS PERSONNEL INSTRUCTION 300–3

DELEGATION OF AUTHORITY TO DETAIL EMPLOYEES

A. Authority Delegated

1. Heads of Operating Divisions (including PHS agencies and the Program Support Center), the Assistant Secretary for Management and Budget for the Office of the Secretary (OS), and the Inspector General (for OIG) are delegated the authority to:

- a. detail and extend details of civil service personnel within the Department in increments not to exceed 120 days, pursuant to 5 U.S.C. 3341; and
- b. detail and extend details of civil service personnel to or from other Federal organizations on either a reimbursable or a non-reimbursable basis pursuant to 31 U.S.C. 1535.

2. These authorities may be redelegate with further redelegation authorized.

B. Restrictions

1. The term “Federal organizations” in paragraph A.1.b. above does not include the Executive Office of the President and the Legislative and Judicial Branches of Government.

2. The Assistant Secretary for Management and Budget retains the authority to approve all details to or from the Executive Office of the President and to or from the Legislative and Judicial Branches of Government (including the General Accounting Office, the Library of Congress, and the Government Printing Office).

C. Exclusions

1. This delegation does not cover:

- a. Assignments of excepted employees other than those with Schedule A and B or VRA appointments to competitive service position (5 CFR 6.5);
- b. Details of Administrative Law Judges (5 U.S.C. 3344);
- c. Details to certain Executive positions (5 U.S.C. 3344–3349) ;
- d. Details of members of the Senior Executive Service (5 CFR 317.903) ;
- e. Details of PHS Commissioned Officers (42 U.S.C. 215);
- f. Details between HHS and a non-Federal organization under Section 214 of the PHS Act, as amended;
- g. Details under the Intergovernmental Personnel Act of 1970 (5 U.S.C. 3372–3374; and 5 CFR Part 334); and
- h. Details to an International organization (5 U.S.C. 3343; and 5 CFR 352.304).

D. Information and Guidance

1. The authorities delegated in paragraphs A.1.a and b. above must be exercised in accordance with the requirements and/or provisions in the following references:

- a. U.S.C. 112 (Details to the Executive Office of the President)
- b. U.S.C. 3341 (Details within Executive or Military Departments)
- c. Civil Service Rule 5 CFR 6.5 (Assignment of Excepted Employees)
- d. 31 U.S.C. 1301 (Appropriation Restrictions on Assignment of Employees)
- e. 31 U.S.C. 1535 (Assignment of Employees Between Executive Branch Departments and Agencies and Written Agreements Between Agencies Detailing Employees)
- f. 4 CG 848–849, April 13, 1925 (Appropriations and Transfer)
- g. 21 CG 954, April 27, 1942 (Details to the Legislative Branch)

- h. 21 CG 1055, May 26, 1942 (Details to the Legislative Branch)
- i. 64 CG 370, B-211373, March 20, 1985 (Nonreimbursable Details)

E. Prior Delegations

This delegation supersedes the February 19, 1991, Delegation of Authority to Detail Personnel, as amended September 29, 1993, from the Assistant Secretary for Personnel Administration to the Heads of Operating Divisions and Regional Directors. To the extent that previous redelegations of the authority to detail personnel made to other officials within HHS are consistent with the provisions of this delegation, they may remain in effect until new redelegations are made under the authority of this delegation.

F. Effective Date

This delegation is effective on the date of this transmittal.

BSE—FEED BAN

Question. Yesterday afternoon, USDA announced that the third cow in United States history tested positive for BSE, commonly known as mad cow disease.

The FDA feed-ban rule, issued in 1997, is the first line of defense in preventing BSE infection in U.S. cattle.

What is FDA doing to ensure that it is inspecting all entities that are subject to the feed ban?

Answer. FDA inspects a wide variety of firms in the animal feed industry to confirm compliance with the ruminant feed ban regulation. Every firm that manufactures, processes, blends, transports, or distributes animal feed or feed ingredients for any animal species is subject to inspection under the FDA ruminant feed ban compliance program. Firms are subject to inspection under the FDA ruminant feed ban regardless of whether prohibited material is used or the relative risk the firms practices may pose to the U.S. BSE feed control program. In addition to feed manufacturers and distributors, over one million farm operations feeding ruminants such as dairy and beef cattle are subject to the rule.

The BSE Ruminant Feed Inspection Compliance Program guidance document constitutes the FDA risk-based inspection priority approach used by FDA and state investigators. FDA gives highest priority to inspecting firms that manufacture or process animal feeds or feed ingredients that contain prohibited material. This industry segment of renderers, protein blenders, and feed mills are inspected annually to ensure that ruminant feeds do not contain prohibited materials.

FDA also conducts inspections on firms considered to have a reduced risk producing or causing contamination of ruminant feed. The agency conducts inspections of these lower risk firms to detect overall compliance trends. If FDA detects compliance trends, agency staff implements more targeted inspectional initiatives to increase our presence in some of these lower risk industry segments.

PANDEMIC INFLUENZA

Question. How is FDA using the \$20 million for pandemic influenza provided in the fiscal year 2006 supplemental?

Answer. The \$20 million supplemental was received at the end of the first quarter and the funds were available on January 26, 2006. I would be happy to provide the spending plan for the record.

[The information follows:]

Food and Drug Administration Pandemic Influenza Request (Dollars in Millions)			
Pandemic Flu Vaccine Capacity	President's Proposed FY 2006 Supplemental	FTE	Description of Activities
CBER -- Enhance regulatory science base to facilitate new vaccines.....	16.7	75	Expand FDA capacity to facilitate the expedited development, evaluation and licensure of additional flu vaccines and manufacturing capabilities and capacity to meet pandemic preparedness needs, consistent with the DHHS Pandemic Influenza Strategic Plan. This includes developing and assessing new technologies, assuring the safety and effectiveness of vaccines, serving as consultants on product development and inspecting manufacturing facilities.
Office of Regulatory Affairs -- Post medical products/vaccines approval inspections.....	1.2	7	Experienced investigators will conduct bioresearch monitoring, drug manufacturer and flu vaccine manufacturer inspections, to assure product quality and prevent problems that threaten product safety or availability early in the development cycle. The requested resources will also allow ORA to expand current efforts to identify and intercept counterfeit products either claiming to prevent the flu or treat its symptoms.
Other Activities (OC) -- Office of Crisis Management/Office of Counterterrorism Policy.....	0.8	3	Support additional duties associated with strategic planning, policy leadership, coordination and communication of the FDA's pandemic influenza activities and design an agency-specific response to the threat of pandemic, consistent with the DHHS Pandemic Flu plan.
Other Activities (OM) -- IT/Systems Requirements.....	1.2	0	Modifications to IT Systems to ensure that critical information is available during the product life cycle.
Total FDA Request.....	20.0	85	

Question. How does FDA plan to use the \$30.5 million requested in fiscal year 2007?

Answer. I would be happy to provide that information for the record.
[The information follows:]

Food and Drug Administration Pandemic Preparedness Request (Dollars in Millions)			
Pandemic Flu	FY 2007 Request	FTE	Description of Activities
Biologics -- Enhance regulatory science base to facilitate new vaccines.....	5.9	36	Expand FDA capacity to facilitate the expedited development, evaluation and licensure of additional flu vaccines and manufacturing capabilities and capacity to meet pandemic preparedness needs. Enhance regulatory science base to facilitate development and manufacturing of new vaccines by supporting new technologies, assessing the safety and effectiveness of vaccines, serving as consultants on product development and inspecting manufacturing facilities.
Biologics -- Develop virus reference strains for manufacturing.....	8.9	20	Prepare a library of pandemic influenza virus high growth reassortants (seed strains) suitable for manufacturing and using the latest and emerging technology, including reverse genetics, assure that seed strains are of high quality and that they are representative of the diversity of the pandemic virus. Scale manufacturing, test and approve manufacturers' seed viruses for new strains; and prepare strain specific reagents and achieving harmonized international standards for use by manufacturers to assure vaccine potency and quality.
Field -- Medical products manufacturing inspections and compliance activities.....	0.04	0	Experienced investigators will conduct bioscience monitoring, drug manufacturer and flu vaccine manufacturer inspections, to assure product quality and prevent problems that threaten product safety or availability early in the development cycle. The requested resources will also allow ODA to expand its capacity to identify and intercept counterfeit products either claiming to prevent flu or treat flu symptoms.
Other Activities (OC) -- Office of Crisis Management/Office of Counterterrorism Policy/Office of Management.....	0.2	0	Support additional duties associated with strategic planning, policy leadership, coordination and implementation of the response to the threat of pandemic, consistent with the DHS Pandemic Flu plan. Modifications to information systems to ensure that critical safety and effectiveness information is available during the product life cycle.
Animal and Human Health and Food Issues			
Foods -- Research and communication on foodborne transmission of virus.....	4.2	7	Conduct research on possible foodborne transmission of the pandemic influenza virus and equine field trials and support technology transfer and training of field scientists to ensure adequate capacity to respond to outbreaks of avian influenza.
Foods -- Validate and implement methods to detect H5N1 virus.....	1.6	5	Validate new and modified methods to detect foodborne H5N1 virus.
Animals -- Antiviral residues in poultry.....	0.8	1	Develop and validate methods to detect antiviral products in poultry and coordinate with USDA on sampling and testing imported poultry products for traces of antiviral residues.
OCM, Field -- Emergency response and quarantine planning.....	1.6	6	Develop and implement plans for containment and disposal of animal feed that has or may have been contaminated with avian flu agents and will develop, integrate and execute FDA animal and food response plans and quarantine activities, in coordination with USDA and CDC.
Foods, Animals, Field, OCTPP -- Biosafety measures.....	2.3	2	Develop best practices on biosafety measures for the rendering, food and feed industries. Consult with industry, other government agencies and external stakeholders on biosafety strategy.
Foods, Field -- Surveillance.....	3.1	0	Improve its capacity to conduct domestic and import surveillance and respond to reports of food or animal health issues associated with viruses to support national pandemic influenza surveillance integration efforts.
Drugs -- Anti-Virals.....	1.0	5	Analyze manufacturing processes for approved influenza products to maintain production efficiency. Develop and implement plans for rapid response to support development of medical countermeasures for pandemic influenza.
Drugs, OCTPP -- Rapid Response.....	0.7	3	Assemble rapid response teams to support accelerated development of medical countermeasures for pandemic and to address other pandemic related issues requiring expedited Agency input or resolution.
Total FDA Request.....	30.4	85.0	

IMPORT INSPECTION

Question. FDA plays a significant role in import inspection at ports. For example, FDA inspects food, human drugs, animal feeds, and medical devices at ports of entry across the country.

For FDA-regulated food products, FDA estimates that by 2007 the amount that comes across the border will have nearly quadrupled since 1999. In a typical year, FDA physically examines less than 1 percent of these food imports. How does FDA keep up with the ever increasing amount of imported products?

Answer. FDA attempts to keep up with the increasing volume of imported products by using a risk based approach when selecting shipments to inspect and sample. All products are screened electronically by FDA's Operational and Administrative System for Import Support, also known as OASIS, against a set of criteria established as a result of previous laboratory findings, foreign inspections, information received from other regulatory agencies, and the relative risks posed by the products in question.

The Public Health Security and Bioterrorism Preparedness and Response Act of 2002 requires anyone intending to import or offer for import a food product must provide prior notice to the FDA before the shipment arrives at the border. Every Prior Notice submission is screened electronically. If specific criteria are met, FDA's Prior Notice Center will review those submissions using various intelligence targeting parameters to protect the Nation's food supply against terrorist acts and other public health emergencies. For example, currently, working with information submitted through Customs and Border Protection's electronic systems used for import entries or through FDA's internet-based Prior Notice System Interface, FDA screens shipments electronically before they arrive in the United States to determine if the shipments meets identified criteria for physical examination or sampling and analysis or warrants other review by FDA personnel. This electronic screening allows FDA to better determine how to deploy our limited physical inspection resources at the border on what appear to be higher-risk food shipments while allowing lower-risk shipments to be processed in accordance with traditional import procedures after the electronic screening.

Question. Does FDA have adequate resources to properly inspect imports?

Answer. The rapid growth of imports combined with ever present security concerns has increased the need to assess the status of imported products. FDA estimates it will review more than 19 million import lines for admissibility into domestic commerce in fiscal year 2007. To help ensure the safety of imported products entering the United States, FDA electronically screens imports through the Operational and Administrative System for Import Support, also known as OASIS. OASIS is an automated system for processing and making admissibility determinations for FDA regulated products that are offered for import. FDA also performs laboratory analysis on products offered for import into the United States; conducts foreign inspections to evaluate manufacturing conditions of products before they are offered for import; and performs periodic filer evaluations to ensure that the import data being provided to FDA is accurate.

The Prior Notice Center, also known as PNC, is another important part of FDA's import strategy. The mission of FDA's PNC is to identify imported food and feed products that may be intentionally contaminated with biological, chemical or radiological agents, or which may pose significant health risks to the American public, and intercept them before they enter the United States. FDA will continue to focus resources on Intensive Prior Notice Import Security Reviews of products that pose the highest potential bioterrorism risks. The PNC uses a combination of adaptable targeting strategies and weighted risk indicators in the threat assessment process including contemporary intelligence involving terrorist activities, a history of prior notice violations, and compliance with admissibility standards as indicated by the results of import field exams, filer evaluations, firm inspections, repeated prior notice violations, and feedback from Field Investigators. By using a risk based approach, the PNC can intercept potentially hazardous products before they enter the United States.

The benefit of these reviews comes from the quality and targeting of review activities; not from the volume of imports inspected. Thus the quality of import screening is a better measure of FDA's import strategy rather than simply focusing on the items physically examined.

DRUG SAFETY

Question. Drug safety is a topic that has been very much in the news over the past year, and in your written testimony, you discuss the challenges the agency

faces in balancing the need for proper risk analysis while trying to speed the review process.

This subcommittee has closely followed FDA's drug safety activities. Last year, we provided an increase of \$10 million for drug safety. This amount was \$5 million more than the budget request. In fiscal year 2007, FDA is requesting an additional \$3.9 million for drug safety.

How is FDA using the \$10 million increase we provided last year?

Answer. In its fiscal year 2006 budget submission to Congress, FDA requested a base increase of \$5 million to bolster the drug safety functions performed within the Center for Drug Evaluation and Research's Office of Drug Safety, also known as ODS. These included three important increases. First, ODS will increase the professional staff in ODS who manage and lead safety reviews. Second, ODS will increase the number of staff with expertise in critical areas, such as risk management, risk communication, and epidemiology. Third, ODS will expand our information technology infrastructure for monitoring post-marketing data by increasing access to a wide range of clinical, pharmacy, and administrative databases. Valuable information regarding the safety of drug products is available in these types of databases for use by our scientists in ODS.

The approval by Congress of the Administration's fiscal year 2006 request for a \$5 million increase significantly strengthens the ability to conduct drug safety activities within ODS.

Congress increased our \$5 million request to \$10 million, adding to our original request an additional \$5 million for general drug safety program activities. The Center for Drug Evaluation and Research will use these funds to increase its emphasis on effective risk communication. The additional funds will further enable FDA to modernize its drug safety program and expand the understanding of, involvement in, and access to, external population-based and "linked" databases, such as the CMS Medicare and Medicaid databases. Accessing these databases represent the future of more thorough and continued monitoring of drug products after they are marketed. Information obtained from these databases, combined with voluntarily reported adverse event information, will substantially increase the agency's ability to efficiently and effectively identify, investigate, and notify consumers of possible drug safety concerns and take appropriate regulatory actions. FDA will also continue its efforts to improve the Adverse Event Reporting System, also known as AERS, so the agency can more efficiently review medication error reports and more quickly take appropriate action to avert further medication errors.

These funds will also allow FDA to hire additional expert staff across the Center to enhance the ability to use multidisciplinary, multi-office teams to analyze and interpret drug safety data before and after product approval. FDA plans to hire additional scientists to address its highest priority safety needs, such as responding to emerging drug safety issues, supporting FDA's Drug Safety Oversight Board, and increasing resources devoted to risk assessment and communication activities. These funds will also assist Center efforts to ensure that drug safety information is available to healthcare professionals, patients, and other consumers.

Question. What will the additional \$3.9 million allow FDA to accomplish in fiscal year 2007?

Answer. FDA requested additional funds in fiscal year 2007 to continue to modernize its AERS system and create "AERS II"—a replacement web-accessible computer system that will enable FDA to maintain the current level of AERS functionality, while providing enhancements in several areas. With more than 5 years of experience with the database, we have identified areas of critical new functionality, including generating web-accessible adverse event information. The current AERS system is FDA's principal post-marketing monitoring tool. It allows FDA to identify events that were not observed or recognized before approval. It allows FDA to identify adverse events that might be happening because patients and prescribers are not using the drug as anticipated.

Beyond the modernization of the AERS system, however, we requested these funds because the AERS system alone is not adequate for a successful, state-of-the-art drug safety program. To appropriately monitor drug safety after marketing, it is essential that FDA have access to a wide range of clinical, pharmacy, and administrative databases. These include databases maintained by organizations such as the Center for Medicare and Medicaid Services, the Department of Veterans Affairs, the Department of Defense, and the Indian Health Service. We will also access clinical and hospital and pharmacy networks and insurers, such as health maintenance organizations, preferred provider organizations, and pharmacy benefit management organizations.

FDA is actively evaluating the utility and feasibility of conducting specific studies of high priority safety issues using such linked databases. Studies conducted on

these types of databases will provide more evidence about drug use in a broader range of conditions, including more detailed evidence about drug safety in subgroups of patients. The planned modernizations for AERS are expected to optimize internal access and review of adverse event.

HUMAN TISSUE SAFETY

Question. In February of this year, FDA ordered a New Jersey human tissue recovery firm to cease operation because it found that the company had seriously violated FDA regulations governing donor screening and record keeping practices. FDA inspection and action followed a news article that uncovered the fact that this company was regularly and illegally harvesting human tissues from funeral homes. These tissues were subsequently transplanted into dozens of patients.

What is FDA doing to make sure situations like this do not happen again?

Answer. FDA wishes to clarify information regarding this matter. As part of an audit consistent with FDA regulations, a tissue processor in Florida noticed discrepancies in records supplied to it by the New Jersey tissue recovery firm. The Florida firm then took the following steps: initiated a recall of tissue it had processed and distributed, quarantined tissue it still had in its possession, and notified FDA. FDA began an inspection of the New Jersey firm in October, 2005, and found that the firm had failed to comply with regulations designed to prevent the spread of communicable diseases. Tissues harvested by the New Jersey firm had been sold to several processors and subsequently transplanted.

FDA is committed to establishing and maintaining high standards for tissue safety and to detecting, investigating and taking enforcement action against violations of its regulatory requirements. FDA continues to evaluate its tissue regulations and policies on an ongoing basis.

Question. Is there a certification or licensing procedure that tissue processing firms must go through before they can begin operating?

Answer. FDA regulations require that tissue processing establishments register with FDA and list their products within 5 days after beginning operations. FDA's District Offices use these registrations to schedule inspections to assure compliance with the regulations designed to promote patient safety and to prevent the spread of communicable diseases.

Question. Does FDA regularly inspect human tissue firms?

Answer. FDA performed 270 inspections of human tissue establishments in fiscal year 2005. The Agency anticipates it will perform 250 inspections in fiscal year 2006 and 325 inspections in fiscal year 2007. FDA is in the process of implementing its new risk-based approach to assure the safety of human cells, tissues, and cellular and tissue-based products, or HCT/Ps. The Agency is using a comprehensive approach for regulating existing and new cell and tissue products. FDA is in the process of addressing issues related to safety and effectiveness of a rapidly growing industry.

A rule expanding the types of tissue facilities required to register with the FDA and list their HCT/Ps became effective January 21, 2004. The donor eligibility rule became effective May 25, 2005, and focuses on donor screening and testing measures to prevent the transmission of communicable diseases from the donor through HCT/Ps. The current good tissue practice rule also became effective May 25, 2005. This rule requires manufacturers to recover, process, store, label, package and distribute HCT/Ps in a way that prevents the introduction, transmission, or spread of communicable diseases. These rules are critical new tools that give FDA the ability to monitor human tissue adverse reactions to target more effectively the products with the highest risks.

PROPOSED USER FEES

Question. FDA is proposing two new user fees in the budget request. One will require manufacturers to pay for the full cost of follow-up inspections when FDA must revisit facilities because of initial bad inspection reports. The second fee would reimburse FDA for the cost of issuing export certificates for food and animal feeds.

Can you explain why you believe these fees are necessary?

Answer. Although FDA issues export certifications for all products it regulates, the agency only has authority to charge a fee to issue export certifications for human and animal drugs, and medical devices. Timely issuance of food and feed export certificates funded through user fees would improve the ability of food and animal feed producers to export their products and would eliminate the current preferential treatment of the food and feed industry differences in authority to collect fees for the food and feed industries.

FDA conducts post-market inspections of food, human drug, biologic, animal drug and feed, and medical device manufacturers—both domestic and foreign—to assess their compliance with Current Good Manufacturing Practice, or CGMP, and other FDA requirements. In 2004, approximately 1,500 out of 21,000 firms inspected were found non-compliant with CGMPs and other important FDA requirements. Under current law, FDA does not have the authority to assess fees for any follow-up inspections conducted by FDA to ensure that manufacturers have addressed violations that were found during the previous inspection. A fee for repeat inspections will serve as an incentive to industry to conform to CGMPs and other FDA requirements and will ensure that the financial burden of re-inspections is more equitably shared between industry and the public.

Both fees are designed to improve the overall management of these activities.

Question. Has FDA sought input from impacted organizations?

Answer. Discussions with industry have not yet been held.

Question. Have you submitted the text of your legislative proposal to the authorizing committee?

Answer. The legislative proposals are in the final stages of review. We expect the proposals will be submitted to the Congress within the next several weeks.

Question. Please explain the services FDA will be reimbursed for by the re-inspection user fee.

Answer. If a firm undertakes corrective action to achieve compliance, FDA will verify the appropriateness and completeness of the corrective action. For the firm to satisfy FDA's concerns and, if regulatory action was taken, to resume its full ability to market products, the firm must be reinspected by FDA and found in compliance.

These user fees will provide funding to FDA to act in a timely manner to ensure that noncompliant firms have taken appropriate corrective action and to facilitate the return of compliant firms to full marketing of violative products. Some of the activities that FDA performs in conducting reinspections include the scheduling and preparatory reinspection work by the FDA investigator, the reinspection itself, sample analyses, report writing, compliance officer review and analysis, conferring with experts, and travel and administrative time.

Question. Please explain the services FDA will be reimbursed for by the food and animal feed certification fee.

Answer. The services FDA will be reimbursed for by the food and animal feed certification fee include: reviewing applications and attestations; checking of field and headquarters administrative records, and with personnel for the compliance status of the firm; review of the product label for compliance with the law; preparing, processing, and issuing of the certifications, including notarization; maintenance of applications and copies for tracking of services rendered and for provision of certificate copies when requested; all other clerical procedures necessary to issue the certifications within 20 days including processing of billing and receipts, and other costs attributable to the issuance of certifications. Currently certifications are processed on an "as resources permits" basis.

FOOD DEFENSE

Question. Over the past 5 years, this subcommittee has provided more than \$600 million for food defense activities at FDA. The fiscal year 2007 budget requests an increase of \$19.8 million for food defense activities. This is a significant investment.

How has FDA used the funding we have provided to make the food supply safer?

Answer. FDA uses the food defense funding to build upon the Nation's core food safety and public health systems and to strengthen our capabilities to address terrorist threats. FDA's efforts to protect the food supply focus primarily on six major crosscutting initiatives under Homeland Security Presidential Directive-9, also known as HSPD-9, for food defense.

One example of FDA's HSPD-9 activities is the establishment of the Food Emergency Response Network, a national network also known as FERN, to increase analytic surge capacity in the event of terrorist attack by developing adequate laboratory testing capacity for biological, chemical and radiological agents in food. The Agency continues to develop FERN by providing laboratory infrastructure, training, and proficiency testing to member laboratories. FDA is conducting targeted food defense research efforts, including prevention technologies, methods development, determination of infectious dose for certain agents when ingested with food, and agent characteristics within specified foods. Also, FDA is performing more effective targeted risk-based inspections using data from FDA's Prior-Notice system and Prior Notice Import Security Reviews based on intelligence, FDA inspection reports, discrepancies in prior notice reporting, and sample collection and analysis. As part of

the government-wide Biosurveillance Initiative, FDA is improving coordination and integration of existing food surveillance capabilities with the Department of Homeland Security's integration and analysis function. FDA is upgrading and expanding its Emergency Operations Network Incident Management System to assist in the management and coordination of the Agency's response to incidents affecting the U.S. food supply. Along with the U.S. Department of Agriculture, the Federal Bureau of Investigation, and Department of Homeland Security, FDA began a new collaborative effort with States and private industry to protect the Nation's food supply from terrorist threats through the Strategic Partnership Program Agroterrorism Initiative. FDA has spearheaded this effort to identify sector-wide vulnerabilities, mitigation strategies, and research needs to protect our Nation's food supply.

Question. Does FDA have an overall plan for food defense, including out-year costs? Can you provide this information for the record?

Answer. FDA's overall plan for food defense aligns with the activities outlined in Homeland Security Presidential Directive-9 also known as HSPD-9, which establishes a national policy to defend the food and agriculture system. The directive lays out a framework for augmenting the Nation's food safety protections by identifying and prioritizing sector-critical infrastructure and key resources for establishing protection requirements, developing awareness and early warning capabilities to recognize threats, mitigating vulnerabilities at critical production and processing nodes, enhancing screening procedures for domestic and imported products, and enhancing response and recovery procedures.

With regard to future activities, the fiscal year 2007 requested funds will be used expand the Food Emergency Response Network, also known as FERN, to include 16 State laboratories, provide grants and technical support to these laboratories, and build analytic surge capacity to respond to a terrorist attack. We will also use these funds to manage, through the National Program Office, the network and to provide training and proficiency testing for FERN laboratories. We will continue Field support for food defense operations, including targeting potentially high-risk imported foods through Prior Notice Import Security Reviews based on intelligence, FDA inspection reports, discrepancies in prior notice reporting, and sample collection and analysis.

FDA also will continue laboratory preparedness efforts and valuable short-term food defense research projects. Many of the projects undertaken are derived from direct interaction with industry following vulnerability assessments. The results of these projects can be communicated directly to industry. These efforts will result in a better understanding of which interventions work, and which do not, for certain agents in specific foods.

In addition, the fiscal year 2007 requested funds will further joint food defense and food safety assignments that will enhance and facilitate the integration of food defense with food safety. In these assignments, samples obtained as part of routine food safety programs will also be tested in a variety of laboratories for a range of select agents that are of most concern. The foods chosen for these assignments are generally foods that we have most concern about based on vulnerability assessments.

Out-year activities will further strengthen our food defense system and advance the objectives identified in HSPD-9.

DRUG EFFICACY STUDY IMPLEMENTATION (DESI) MONOGRAPH SYSTEM

Question. In response to Senate Committee Report language accompanying the fiscal year 2005 agriculture appropriations bill, FDA prepared a report on the feasibility of developing a drug monograph system for older prescription drugs that have been marketed for a material extent and material amount of time without documented safety problems. In this report, FDA stated that a monograph system would be scientifically infeasible and cost prohibitive. However, FDA did not propose an alternate solution to this monograph system.

The Senate Committee Report to accompany the fiscal year 2006 Agriculture appropriations bill requested a second report asking FDA to propose an alternate approach that provides for the uniform and transparent regulation of these products.

What is the status of this report?

Answer. FDA is working on this report and hopes to submit it to Congress this summer.

Question. Has FDA developed an alternate method as requested in the report language?

Answer. The agency is working on its approach to the regulation of these products and plans to discuss alternatives in our report to the subcommittee.

MEDICAL IMAGING DRUGS

Question. Since FDA terminated the Medical Imaging Drugs Advisory Committee in 2002, FDA has tried to fill the gap in medical imaging expertise by retaining experts as special government employees and appointing them on an ad hoc basis to meetings of a standing advisory committee when a medical imaging product or issue needs advisory committee review. I understand that at the last advisory committee meeting to consider a medical imaging product, which was held in March 2005, FDA appointed three medical imaging drug experts to a standing panel of 17 experts. In light of the increasingly important role of medical imaging drugs and medical imaging biomarkers under FDA's Critical Path initiative, I am interested in FDA's ability to get the necessary medical imaging expertise on these panels. How many medical imaging experts has FDA retained as special government employees?

Answer. Currently, FDA has a list of 89 special government employees, or SGEs, with medical imaging expertise who may be requested to participate in regulatory activities, including FDA drug advisory committee and device panel discussions. The 89 SGEs includes 72 members of various Medical Devices Advisory Committees and consultants. These SGEs are also accessible for drug review consultation.

Question. What is FDA doing to improve the recruitment of medical imaging experts as special government employees? Are there any barriers to such recruitment?

Answer. The ability of a special governmental employee, or SGE, to assist in FDA activities varies considerably, based predominantly upon competing SGE commitments and timelines. Hence, FDA is actively recruiting additional SGEs via interactions with professional societies and visiting professor lecture activities. Barriers to SGE recruitment relate to conflict of interest considerations and the limited reimbursements to SGEs.

Question. How many medical imaging expert special government employees does FDA intend to hire in the future?

Answer. FDA is currently processing materials for 12 medical imaging experts as potential special government employees. When vacancies are imminent on Medical Devices Advisory Committees, FDA requests professional society assistance in obtaining voluntary applicants.

COLOR CERTIFICATION

Question. The fiscal year 2007 budget request includes an increase in current law user fees of \$180,000 for the Color Certification Program. Please explain this increase.

Answer. As in previous years, FDA estimates that an increase of 3 percent in poundage will be submitted for color certification in fiscal year 2007 over fiscal year 2006. This will generate an estimated \$180,000 in additional color certification revenue and is not related to any rate increase for the Color Certification Program.

Question. In April 2005, FDA increased the color certification fee through an interim final rule, with no opportunity for comment from industry. FDA has stated this was necessary in order to ensure that the fund was not depleted. At the same time, FDA stressed the need to keep adequate reserves in order to ensure adequate levels of funding. Given that FDA has worked to ensure an adequate reserve fund, would it be possible for FDA to seek public comment in advance of any future color certification fee increase?

Answer. Historically, solicitation of public comment has not been deemed a prerequisite for increasing color certification fees. As required under the Federal Food, Drug, and Cosmetic Act, also known as the FD&C Act, Section 721(e), the fees assessed for color certification reflect those costs necessary to provide, maintain, and equip an adequate service for such purposes. Section 721(e) does not provide for notice-and-comment rulemaking for assessing or increasing fees. Since passage of the 1938 FD&C Act, FDA increased the color certification fees several times, most recently in 1963, 1982, 1994 and 2005. FDA stated, in the March 29, 2005 interim final rule, that the fee modification is necessary because of a general increase in all costs of operating the certification program. In the interim final rule, FDA found under 5 U.S.C. 553(b)(B) and 21 CFR 10.40(e) that providing for public comment before establishing the fees, and for revising the basis for calculating the fees, is contrary to the public interest. Despite this finding, the agency stated in the interim final rule that it invited and would consider public comments on the requirements in the rule. The interim final rule became effective on April 28, 2005, and FDA requested comments by May 31, 2005. Comments, as well as a request for a stay of the effective date and a citizen petition, were submitted to the docket and are under consideration.

Question. Has FDA taken any steps to make the color certification fees and program expenses more transparent?

Answer. FDA's Office of Financial Management, also known as OFM, occasionally submits certification fund updates to industry representatives; this information is always provided to industry representatives upon request. OFM maintains detailed accounting records of color certification expenditures and other related non-proprietary information. These statements include expenditure reports, status of funds reports, and projected yearly estimates for the various allowances within the Color Certification program.

Question. Please provide a list of anticipated equipment needs, including estimated costs, necessary to maintain adequate service for certification of batches of color additives.

Answer. I would be happy to provide that information for the record.

[The information follows:]

COLOR CERTIFICATION PROGRAM—ANTICIPATED EQUIPMENT NEEDS AND RELATED COSTS—
FISCAL YEAR 2007-FISCAL YEAR 2009

Item	Description	Estimated Cost (per three years)
Maintenance contract for computer database.	Certification operating system and web-based industry interface.	\$300,000
Maintenance contracts for large equipment.	High-performance liquid chromatographs (approximately 21 systems).	250,000
	Liquid chromatograph/mass selective detector	25,000
	X-ray fluorescence spectrometer	60,000
	Atomic absorption spectrometer	30,000
	Ion chromatograph	16,500
	Microwave digestion and ashing systems	15,000
Replacement parts for equipment	X-ray fluorescence spectrometer (x-ray tubes, sample changer parts, helium/vacuum switch).	75,000
	Atomic absorption spectrometer (furnace tubes, lamps)	30,000
	Microwave digestion and ashing systems (parts, crucibles)	7,500
	Shatterbox (grinding tools)	5,000
	Pellet press (press tools)	2,500
Anticipated new large equipment	High-performance liquid chromatographs (expect to purchase two annually).	460,000
	X-ray fluorescence spectrometer	350,000
	Liquid chromatograph/mass selective detector	120,000
	Ion chromatograph	10,000
	Preparative high-performance liquid chromatograph	45,000
	Flash preparative chromatograph	25,000
	Automatic titrator	17,000
	Microwave ashing system	20,000
	Fusion machine and platinum ware	50,000
	Freeze drier	15,000
	Microwave synthesizer	20,000
	Uninterruptible power supply	30,000
	Reaction system	20,000
Anticipated new small equipment	Analytical balances (5), top-loading balances, lab computers, spectrophotometers, fluorescence detector, moisture analyzer, centrifuge rotor, digital camera.	250,000
Hazardous waste disposal	Disposal of chemical waste	300,000
Stockroom contract	Reagents, glassware, misc. lab supplies	330,000
Misc. purchases	Computer software, reagents, misc. lab supplies	400,000
Total		3,278,500

Question. What is the anticipated timeframe for these equipment needs?

Answer. Certification requirements are assessed in 3 year cycles. FDA's anticipated timeframe for these equipment needs is 3 years.

FOOD CONTACT SUBSTANCES

Question. Since its implementation 6 years ago, the Food Contact Notification program has been successful. I understand that the Food Contact Notification program requires less FDA resources than the previously used Food Additive Petition process because the FCN program does not require the Agency to follow Notice and Comment Procedures and promulgate a new regulation. In addition, the clearance of a

new material under the Food Additive Petition program typically took 2 to 4 years, but the Notification program only takes 4 months. The success of the program has led to the clearance of over 500 new types of packaging materials.

If the FCN program is more efficient, why would FDA seek to eliminate the program and return to promulgating regulations, and how does FDA plan to accomplish its statutory mandate under the food additive petition process when it does not seek to add additional resources to handle these submissions?

Answer. The Food Contact Notification, also known as FCN, program has been very successful. Under the FCN program, if FDA does not object within the 120-day review period, a company can legally market its product. To date, FDA has always met the 120-day deadline. In contrast, under the Food Additive Petition, also known as FAP, program, the petitioned food contact substance cannot lawfully be marketed until a regulation is published by FDA. Reverting to the FAP process for food contact substances will not have an adverse impact on the public health because these substances cannot be marketed until FDA completes a full safety review of each substance. Prior to the implementation of the FCN program, FDA had implemented many changes to the FAP process and had made significant progress in streamlining the review of food additive petitions. Although FDA does not expect to be able to meet its statutory mandate of publishing a decision on a petition within 180 days of filing, we will continue our efforts to streamline the petition review process and to reach decisions in a timely manner.

Question. What is FDA's assessment of the impact that the elimination of the FCN program will have on packaging innovation and on public health?

Answer. Elimination of the FCN program will not have a significant adverse impact on the public health because pre-market approval of food contact substances will still be required and food contact substances will still have to meet the same safety standard so that unsafe food contact substances do not reach the market. As in the past, petitions in which the subject additive is intended to have an impact on the public health, for example reducing pathogens on food, will be prioritized and expedited through the review and administrative process. Thus any impact on public health will be minimal.

NEW DRUG APPLICATIONS

Question. On February 13, 2006, the Justice Department, on behalf of FDA, represented to the U.S. District Court for the District of Columbia that the Omnitrope New Drug Application, which was submitted in fiscal year 2003, is still undergoing active review by the Agency. However, in the FDA's fiscal year 2007 budget submission the Agency reported that, for NDA submissions during fiscal year 2003, which would include this application, FDA reviewed and acted on "100 percent of 82" fiscal year 2003 NDA submissions by the end of fiscal year 2004. Please explain this apparent discrepancy. Was action completed on all NDAs or are there submissions from fiscal year 2003 still under review?

Answer. As FDA described in an August 2004 letter to the sponsor of the Omnitrope NDA, the reviewing division had completed its review of the information in the NDA. However, because the agency was considering related scientific and legal issues in its review of pending citizen petitions, and scientific considerations related to the approval of products like Omnitrope were to be the subject of a series of public meetings, FDA was not ready to make an approval decision on the application. The agency deferred a decision on the Omnitrope NDA until the agency knew whether the data in the NDA was sufficient for approval and, if not, what additional substantive information and data might be necessary to support approval. The letter identified what additional steps had to be completed before the agency could inform the sponsor of the actions necessary to place the Omnitrope NDA in condition for approval. Therefore, it was considered an action in accordance with the PDUFA performance goals. All fiscal year 2003 NDA submissions have been completed and final performance has been reported.

SUNSCREEN MONOGRAPHS

Question. The statement of managers accompanying the fiscal year 2006 conference report directed FDA to issue a comprehensive final monograph for labeling over-the-counter sunscreen products, including UVA and UVB labeling requirements, by May 10, 2006. Please describe the status of FDA's efforts or plans to finalize the sunscreen labeling guidelines by this deadline.

Answer. We are currently working on a rulemaking for OTC sunscreen drug products to address both UVA and UVB labeling requirements. We are currently working to publish the document for this rulemaking in the Federal Register.

QUESTIONS SUBMITTED BY SENATOR MITCH MCCONNELL

NATIONAL INSTITUTE FOR PHARMACEUTICAL TECHNOLOGY AND EDUCATION

Question. In June 2005 the Center for Drug Evaluation and Research's Office of Pharmaceutical Science within the Food and Drug Administration (FDA) signed a Memorandum of Agreement with the National Institute for Pharmaceutical Technology and Education (NIPTE). The University of Kentucky (UK) is a member of NIPTE.

As the FDA considers funding priorities for fiscal year 2007, I am interested in answers to the following questions raised by NIPTE and UK.

The Memorandum of Agreement expresses the FDA's desire to collaborate with NIPTE on issues related to pharmaceutical development, manufacturing practices and technologies.

To date, what interaction has the FDA had with NIPTE?

Answer. FDA has had some preliminary discussions with NIPTE about issues of mutual interest. NIPTE has expressed concerns about the level of products failing during development.

Question. NIPTE has concerns that product failure during development is often related to the transition from a laboratory prototype to final product. They have expressed concerns that the limited amount of research into these failures causes production technology to lag behind efforts to discover new compounds.

Do you anticipate that the relationship between FDA and NIPTE will promote a more efficient therapy development and production process and if so, how?

Answer. It is not possible to determine, at this time, the outcome of any interactions with NIPTE. FDA works with many academic institutions and other interested parties on pharmaceutical development and manufacturing research to support FDA policy relating to Process Analytical Technologies product applications.

Question. The FDA's stated goal of the Critical Path to New Medical Products initiative is to modernize the scientific process through which drugs and other treatments are transformed from "proof of concept" into medical products.

How can the FDA take advantage of the infrastructure and resources of NIPTE's member institutions to promote the goals of the Critical Path initiative?

Answer. We expect the new manufacturing science created through CDER's contract with NIPTE to promote manufacturing process improvements as part of the Critical Path Initiative. It is not possible to determine, at this time, whether FDA can take further advantage of infrastructure and resources at NIPTE. FDA believes that the best way to advance the goals of Critical Path is to stimulate broad-based efforts that advance the goals of this initiative.

QUESTIONS SUBMITTED BY SENATOR SAM BROWNBACK

CLINICAL TRIALS

Question. I understand the FDA has regulatory authority to utilize a number of various controls to determine efficacy in the clinical trials process, which include the use of historical controls and placebo controls.

Is the FDA considering increasing the frequency of approval for study designs involving historical controls or even Bayesian statistics?

Answer. FDA is actively considering, under its critical path initiative, a variety of study designs, methods of analysis, and uses of data from other studies to improve decision making and the rate of success of studies. Although FDA does not approve study designs, we do discuss with sponsors whether we are likely to consider a particular design as representing an adequate and well-controlled study that could support approval under the Federal Food, Drug, and Cosmetic Act. The appropriate use and applicability of historical controls in which treatment of a group of patients is compared to well-documented experience from other studies is considered in detail in the ICH guidance E-10 known as the Choice of Control Group and Related Issues in Clinical Trials. FDA's regulations at 21 CFR 314.126, state that historical controls can be an acceptable kind of "adequate and well-controlled study," but only in special circumstances, such as studies of diseases with high and predictable mortality. Such controls are regularly used now, for example, in accelerated approvals of anti-cancer drugs based on tumor response rates. See 21 CFR 314.500. It is possible, and is worth studying, particularly for rare diseases, that better documentation of the natural history of diseases will provide a basis for wider use of historically controlled trials. With regard to medical devices, FDA's regulations at 21 CFR 860.7, allow for a wide variety of valid scientific evidence for premarket approval applications, including historical controls, where appropriate.

FDA has viewed Bayesian approaches as an alternative method in the design and evaluation of clinical studies. The frequency of use of such an approach is related to the medical product itself, the sponsor, the target population, and many other factors. Although FDA would consider the use of Bayesian statistics, few drug sponsors propose such designs. In May 2004, in an effort to emphasize our willingness to examine such designs, FDA and Johns Hopkins University jointly sponsored a very well-attended workshop for industry, academia, and government entitled, "Can Bayesian Approaches to Studying New Treatments Improve Regulatory Decision-Making?" The Center for Devices and Radiological Health has accepted designs involving Bayesian statistics since 1998, and there has been an increase in the frequency of investigational device exemptions that use Bayesian design and plan appropriate analyses.

Question. Please list the number of cancer drugs for which the FDA approved a study design that included a placebo-controlled trial, over the past 4 year period.

Answer. FDA does not "approve" study designs or protocols. Companies generally develop an overall drug development strategy, including specific protocols, to seek registration or approval in multiple countries such as the European Union, Japan, Switzerland, Canada, and Australia. FDA reviews, but does not approve these protocols.

In cancer settings, the term placebo-controlled is a misnomer. It is very rare for a cancer patient to only receive a placebo. Whenever possible, FDA encourages use of another available therapy as an active-control rather than a placebo. In situations where an active-control study cannot be conducted, FDA seeks to ensure that all patients receive best supportive care in addition to the test-article or placebo to which they are randomized.

Question. Please describe the process by which a cancer patient who has exhausted all other treatment options can gain access to a drug that has shown efficacy in an earlier stage of the clinical trials process.

Answer. The FDA has a long-standing commitment to desperately ill patients, including patients with cancer, to facilitate the availability of promising new drugs during the drug development process, when promising drugs are being studied, but are not yet approved for marketing. FDA's statute and regulations enable a patient suffering from a serious or immediately life threatening disease for whom no comparable or satisfactory alternative drug or other therapy is available to get access to a promising investigational drug. FDA is developing regulations to further clarify and publicize the expanded access mechanisms for such treatment use of investigational new drugs, in the belief that such new regulations will increase the awareness of and participation in expanded access programs. However, it should be noted that FDA does not have authority to compel a sponsor to make an investigational new drug available for treatment use.

In December 2003, FDA submitted to Congress its report on Patient Access to New Therapeutic Agents for Pediatric Cancer. This report includes how patients can access investigational drugs under current rules. I would be happy to provide for the record, the section of the report that describes our current system.

[The information follows:]

EXISTING PROGRAMS

Access Outside of Clinical Trials

It is not always possible for all patients who want access to investigational drugs to enroll in clinical trials. Patients may not meet eligibility criteria or may be geographically isolated from a study site. It may be difficult to find an ongoing trial for a particular type and stage of cancer. In these situations, FDA and NCI believe that it is appropriate to help make certain promising, but as yet unproven, products available outside of a clinical trial (non-protocol) to patients with cancer as well as other serious and life-threatening illnesses. Non-protocol investigational therapy should be offered in a way that does not pose an unreasonable risk to the patient or an unreasonable risk of losing valuable information about the effect of the drug. For these reasons, although treatment is focused on the individual patient, a study plan (protocol) may be written to ensure that the treatment is administered appropriately and that patients are monitored for toxicity. The programs available through both agencies are discussed below. It is important to note that a pharmaceutical manufacturer must first agree to provide the requested product for a non-protocol investigational therapy to begin. NCI and FDA cannot mandate that the requested products be supplied to these programs; the agencies can only review and approve proposals to use them.

FDA Programs for Non-protocol Access

FDA programs that permit non-protocol access to investigational agents for patients with serious or life-threatening disease include the single patient IND, the emergency IND, and the Treatment IND (sometimes informally referred to as an expanded access protocol). The lay public frequently refers to these programs as compassionate use, although the term compassionate use does not appear in FDA regulations. Single patient or emergency INDs refer to a treatment program for a single individual. Treatment IND refers to a single study plan used to treat multiple patients.

Single Patient IND Submissions

Single-patient IND submissions can represent entirely new uses for a drug or exceptions to an ongoing clinical trial protocol for a patient who does not meet protocol entry criteria. Single patient IND requests can be submitted as amendments to an existing IND or as an entirely new IND. They can be submitted by a drug manufacturer (usually amending an existing IND) or by an individual physician, following usual procedures for IND filing, including IRB review and informed consent. If the need for treatment is urgent and does not allow time for submission of an IND, an emergency IND can be obtained allowing FDA to authorize shipment of a drug for the specified use before the IND is submitted (21 CFR 312.36). The IND should then be submitted as soon as possible after receiving authorization. As with all INDs, both mechanisms require adverse event reporting and an annual summary to be submitted to FDA.

Treatment IND

Treatment IND study plans “facilitate the availability of promising new drugs to desperately ill patients as early in the drug development process as possible, before general marketing begins, and obtain additional data on the drug’s safety and effectiveness” (21 CFR 312.34). Certain criteria must be met for a drug to be considered for approval in a Treatment IND,¹ including:

- The patients’ disease must be serious or life-threatening.
 - No comparable or satisfactory treatment is available to the target population of patients.
 - The drug is in clinical trials (generally Phase 3 and not ordinarily prior to Phase 2).
 - The sponsor of the clinical trials is actively pursuing marketing of the drug.
- FDA may refuse the request if:
- For a serious disease, sufficient evidence of safety and potential efficacy is not provided to support use of the drug to treat it.
 - For a life-threatening disease, available scientific evidence does not provide a reasonable basis for concluding that the drug may be effective and would not expose patients to serious additional risk of illness or injury.

The same safeguards and reporting requirements that apply to any IND study apply to a Treatment IND, including IRB approval. The study plan must contain a rationale for the use of the investigational drug, as well as a list of what available regimens should be tried prior to its use, or an explanation of why the use of the investigational drug is preferable to the use of available marketed treatments.

NCI Programs for Non-protocol Access

At NCI, Special Exception and Group C protocols provide access to investigational agents for those patients unable to participate in a clinical trial.

Special Exception

The Special Exception is comparable to the single patient IND, but investigators may obtain investigational agents directly from NCI using NCI’s Special Exception mechanism instead of filing a new IND with FDA. NCI does not grant these requests for drugs in Phase 1 development, because NCI requires some demonstration of efficacy before permitting individual treatment. The written policy for this program requires objective evidence that the investigational agent is active in the disease for which the request is being made.

Anecdotal reports or reports that show low response rates or responses of brief duration are not sufficient to justify approval of the request. Patients must be ineligible for ongoing research protocols and must have received standard therapies.

Group C

Group C designation is an expanded access program similar to a Treatment IND that allows broadened access to investigational agents with reproducible activity in one or more specific tumor types. An agent must alter or be likely to alter the pattern of treatment of the disease, and properly trained physicians without specialized

supportive care facilities must be able to administer the agent safely. For an agent that meets this definition, CTEP may submit a formal application to FDA to authorize distribution of the agent (Group C distribution) by NCI for the specific indication described in the application. This application is not a marketing application, and FDA approval of a Group C protocol does not replace an FDA conclusion that the drug is safe and effective. The study plan must contain the indication, dosage, precautions, warnings, known adverse events of the product, and an informed consent form. Approval of the Group C protocol carries the obligation of the usual safety reporting requirements. This mechanism is used only with agents for which activity is sufficiently established and for which a New Drug Application (NDA) or Biological Licensing Application (BLA) approval is considered likely in the relatively near future.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

FIELD STAFF

Question. We discussed earlier the decrease in FDA field force, and I was told that this was a result of the streamlining of the FDA inspection process, and would not result in fewer, or less effective, inspections.

Please provide specific numbers of inspections that are scheduled to take place by all FDA field staff members in fiscal year 2007. Please organize these into the types of inspections FDA performs—for example, inspections of feed manufacturers, ports, food manufacturers, drug companies, overseas companies, etc. How do each of these numbers compare to fiscal year 2006 and 2005 levels?

Answer. I will be happy to provide a table that lists activities, by type of inspections, for fiscal years 2005, 2006, and 2007 for the record. Traditionally, that information is captured in a table entitled, “Combined Field Activities—ORA Program Activity Data” that appears in the published fiscal year 2007 FDA Congressional Justification, pages 272–277.

[That information follows:]

COMBINED FIELD ACTIVITIES—ORA PROGRAM ACTIVITY DATA

	Fiscal year 2005 actual	Fiscal year 2006 estimate	Fiscal year 2007 estimate
FOODS FIELD			
Program Outputs—Domestic Inspections:			
Domestic Food Safety Program Inspections	4,573	3,400	3,400
Imported and Domestic Cheese Program Inspections	477	400	400
Domestic Low Acid Canned Foods/Acidified Foods Inspections	481	400	400
Domestic Fish & Fishery Products (HACCP) Inspections	2,467	2,480	2,480
Import (Seafood Program Including HACCP) Inspections	500	500	500
Juice HACCP Inspection Program (HACCP)	490	375	375
Interstate Travel Sanitation (ITS) Inspections	1,510	1,700	1,700
State Contract Food Safety (Non HACCP) Inspections	6,992	8,130	8,130
State Contract Domestic Seafood HACCP Inspections	953	1,135	1,135
State Contract Juice HACCP	35	35	
State Partnership Inspections	1,284	1,300	1,300
Total Above FDA and State Contract Inspections	19,774	19,855	19,855
Total Domestic Reinspections (Non-add)	523	523	523
State Contract and Grant Foods Funding	\$6,825,000	\$7,100,000	\$6,940,000
Number of FERN State Laboratories	8	10	16
Annual FERN State Cooperative Agreements/Operations	\$12,270,000	\$7,037,000	\$12,236,000
Total State & Annual FERN Funding	\$19,095,000	\$14,137,000	\$19,176,000
Domestic Field Exams/Tests	3,528	5,000	5,000
Domestic Laboratory Samples Analyzed	15,390	11,425	9,425
All Foreign Inspections	129	200	100
Total Foreign Reinspections (Non-add)	15	15	15

COMBINED FIELD ACTIVITIES—ORA PROGRAM ACTIVITY DATA—Continued

	Fiscal year 2005 actual	Fiscal year 2006 estimate	Fiscal year 2007 estimate
Import Field Exams/Tests	84,997	75,000	71,000
Import Laboratory Samples Analyzed	25,549	31,600	29,600
Import Physical Exam Subtotal	110,546	106,600	100,600
Import Line Decisions	8,672,168	10,059,715	11,669,269
Percent of Import Lines Physically Examined	1.27	1.06	0.86
Prior Notice Security Import Reviews (Bioterrorism Act mandate) ..	86,187	45,000	60,000
COSMETICS FIELD			
Program Outputs—Domestic Inspections:			
All Inspections	138	100	100
Total Domestic Reinspections (Non-add)	7	7	7
Program Outputs—Import/Foreign Inspections:			
Import Field Exams/Tests	1,983	2,000	2,000
Import Laboratory Samples Analyzed	241	200	200
Import Physical Exam Subtotal	2,224	2,200	2,200
Import Line Decisions	1,146,049	1,398,180	1,705,779
Percent of Import Lines Physically Examined	0.19	0.16	0.13
DRUGS FIELD			
Program Outputs—Domestic Inspections:			
Pre-Approval Inspections (NDA)	149	130	130
Pre-Approval Inspections (ANDA)	81	135	135
Bioresearch Monitoring Program Inspections	562	520	520
Drug Processing (GMP) Program Inspections	1,365	1,500	1,440
Compressed Medical Gas Manufacturers Inspections	125	155	150
Adverse Drug Events Project Inspections	106	135	135
OTC Monograph Project Inspections and Health Fraud Project In- spections ¹	53	11	45
State Partnership Inspections: Compressed Medical Gas Manufac- turers Inspections	85	110	110
State Partnership Inspections: GMP Inspections	57	50	50
Total Above FDA and State Partnership Inspections	2,594	2,780	2,715
Total Domestic Reinspections (Non-add)	220	220	220
Domestic Laboratory Samples Analyzed	1,446	1,735	1,600
Programs Outputs—Import/Foreign Inspections:			
Foreign Pre-Approval Inspections (NDA)	163	180	180
Foreign Pre-Approval Inspections (ANDA)	77	60	60
Foreign Bioresearch Monitoring Program Inspections	85	65	65
Foreign Drug Processing (GMP) Program Inspections	217	195	195
Foreign Adverse Drug Events Project Inspections	10	25	25
Total Above Foreign FDA Inspections	52	525	525
Total Foreign Reinspections (Non-add)	17	17	17
Import Field Exams/Tests	4,288	4,400	4,400
Import Laboratory Samples Analyzed	1,045	355	300
Import Physical Exam Subtotal	5,333	4,755	4,700
Import Line Decisions	264,559	317,471	380,965
Percent of Import Lines Physically Examined	2.01	1.50	1.23

COMBINED FIELD ACTIVITIES—ORA PROGRAM ACTIVITY DATA—Continued

	Fiscal year 2005 actual	Fiscal year 2006 estimate	Fiscal year 2007 estimate
BIOLOGICS FIELD			
Program Outputs—Domestic Inspections:			
Bioresearch Monitoring Program Inspections	121	156	156
Blood Bank Inspections	1,439	1,130	1,070
Source Plasma Inspections	188	165	160
Pre-License, Pre-Approval (Pre-Market) Inspections	3	10	10
GMP Inspections	42	36	36
GMP (Device) Inspections	14	35	35
Human Tissue Inspections	270	250	325
Total Above Domestic Inspections	2,077	1,782	1,792
Total Domestic Reinspections (Non-add)	50	50	50
Program Outputs—Import/Foreign Inspections:			
Blood Bank Inspections	16	24	24
Pre-License Inspections	6		
GMP Inspections	15	24	17
Total Above Foreign FDA Inspections	37	48	41
Total Foreign Reinspections (Non-add)	4	4	4
Import Field Exams/Tests 1	143	100	100
Import Line Decisions	39,979	44,377	49,258
Percent of Import Lines Physically Examined	0.36	0.23	0.20
ANIMAL DRUGS & FEEDS FIELD			
Program Outputs—Domestic Inspections			
Pre-Approval/BIMO Inspections	72	140	110
Drug Process and New ADF Program Inspections	230	210	210
BSE Inspections	3,025	3,760	3,760
Feed Contaminant Inspections	3	15	15
Illegal Tissue Residue Program Inspections	203	245	245
Feed Manufacturing Program Inspections	369	240	40
State Contract Inspections: BSE	3,309	4,562	4,562
State Contract Inspections: Feed Manufacturers	457	347	347
State Contract Inspections: Illegal Tissue Residue	370	750	600
State Partnership Inspections: BSE and Other	988	900	900
Total Above FDA and State Contract Inspections	9,036	11,169	10,789
Total Domestic Reinspections (Non-add)	173	173	173
State Animal Drugs/Feeds Funding	\$1,300,000	\$1,700,600	\$1,800,000
BSE Grant Increase	\$3,000,000	\$3,000,000	\$3,000,000
State Contract for Tissue Residue	\$220,000	\$220,000	\$210,000
Total State Funding	\$4,520,000	\$4,920,600	\$5,010,000
Domestic Laboratory Samples Analyzed	1,841	1,770	1,730
Programs Outputs—Import/Foreign Inspections:			
Foreign Pre-Approval/Bioresearch Monitoring Program Inspections	26	45	45
Foreign Drug Processing and New ADF Program Inspections	12	10	10
Total Above Foreign FDA Inspections	38	55	55
Total Foreign Reinspections (Non-add)	3	3	3
Import Field Exams/Tests	4,298	4,500	4,500

COMBINED FIELD ACTIVITIES—ORA PROGRAM ACTIVITY DATA—Continued

	Fiscal year 2005 actual	Fiscal year 2006 estimate	Fiscal year 2007 estimate
Import Laboratory Samples Analyzed	753	1,120	900
Import Physical Exam Subtotal	5,051	5,620	5,400
Import Line Decisions	212,254	235,602	261,518
Percent of Import Lines Physically Examined	2.38	2.39	2.06
DEVICES FIELD			
Programs Outputs—Domestic Inspections:			
Bioresearch Monitoring Program Inspections	329	300	300
Pre-Approval Inspections	64	130	130
Post-Market Audit Inspections	63	65	65
GMP Inspections (Levels I, II, III and Accredited Persons)	1,430	1,530	1,530
Total Above Domestic Inspections: Non MQSA	1,886	2,025	2,025
Inspections (MQSA) FDA Domestic (non-VHA)	366	335	371
Inspections (MQSA) FDA Domestic (VHA)	32	32	32
Inspections (MQSA) by State Contract	8,340	7,924	7,700
Inspections (MQSA) by State non-Contract	545	530	530
Total Above Domestic Inspections: MQSA	9,283	8,821	8,633
Total Domestic Reinspections (Non-add)	237	237	237
State Contract Devices Funding	\$1,350,000	\$250,000	\$275,000
State Contract Mammography Funding	\$9,800,000	\$9,200,000	\$9,940,000
Total State Funding	\$11,150,000	\$9,450,000	\$10,215,000
Domestic Radiological Health Inspections	107	130	130
Domestic Field Exams/Tests	944	1,215	1,215
Domestic Laboratory Samples Analyzed	200	217	217
Programs Outputs—Import/Foreign Inspections:			
Foreign Bioresearch Monitoring Inspections	6	10	10
Foreign Pre-Approval Inspections	17	34	34
Foreign Post-Market Audit Inspections	26	27	27
Foreign GMP Inspections	225	207	189
Foreign MQSA Inspections	16	15	15
Foreign Radiological Health Inspections	9	19	19
Total Above Foreign FDA Inspections	299	312	294
Total Foreign Reinspections (Non-add)	24	24	24
Import Field Exams/Tests	6,901	5,000	5,000
Import Laboratory Samples Analyzed	1,333	1,440	1,440
Import Physical Exam Subtotal	8,234	6,440	6,440
Import Line Decisions	3,484,393	4,460,023	5,708,829
Percent of Import Lines Physically Examined	0.24	0.14	0.11

¹ The OTC Monograph and Health Fraud Inspections will no longer be planned separately in fiscal year 2006.

AVIAN FLU

Question. Is there any vaccine currently available that would protect humans from the H5N1 flu virus? How much? Please include experimental and approved, and explain the difference, and how the distribution would occur.

Answer. There is currently no FDA-approved vaccine available to protect humans from the H5N1 influenza virus that currently is circulating in Asia and parts of Europe. However, candidate H5N1 vaccines are in development.

In 2004, the National Institute of Allergy and Infectious Diseases, or NIAID, awarded two contracts for the production and clinical testing of H5N1 vaccines based on an H5N1 reference strain produced through reverse genetics. These vaccines are currently under evaluation in clinical trials, under protocols developed with FDA input. We have stated that, if provided adequate data, we would be able to approve a pandemic influenza strain that is used in an existing licensed vaccine process, in an expedited manner and without requiring a new license. Therefore, as the results of these studies are submitted to us by licensed manufacturers, we will be able to consider them rapidly for approval as supplements to existing vaccine licenses. Currently, unlicensed vaccines made with new technologies or with the addition of adjuvants to stimulate the immune response would require more extensive evaluation by FDA as new products. However, we are providing accelerated development and evaluation pathways to help assure the safety and immunogenicity of new influenza vaccines as efficiently and rapidly as possible.

To help manufacturers develop pandemic and seasonal influenza vaccines, we recently issued two draft guidances. These guidances provide recommendations on developing the information needed to show safety and effectiveness for new vaccines and outline expedited pathways to licensure. Among the issues discussed in the guidances are the use of new technologies, such as cell culture, recombinant technologies, and the use of adjuvants, in vaccine development and production.

To facilitate the availability of pandemic influenza vaccines prior to their licensure, if needed in an emergency, FDA could evaluate the benefit/risk ratio of pandemic influenza vaccines and, where appropriate, make such vaccines available under other regulatory mechanisms, including investigational new drug or Emergency Use Authorizations. With regard to vaccine distribution, the Department of Health and Human Services, or HHS, has announced procurement for the Strategic National Stockpile, also known as SNS, which includes vaccines that could be distributed for use in the event of a potential influenza pandemic. HHS provides oversight of the SNS, including responsibility for procurement and maintenance of vaccines and other medical products to be used in the event of an influenza pandemic or other public health emergency. FDA's role is to provide technical assistance and support for HHS efforts regarding the development, procurement, maintenance, and deployment of pandemic influenza countermeasures and other medical products held in the SNS.

After consultation with HHS, FDA offers the following information on the status of HHS efforts to support the stockpiling and distribution of candidate pandemic vaccines. Based on the latest scientific research, which indicates that two 90 microgram doses of the pre-pandemic H5N1 vaccine will be effective as a course of vaccination, HHS has ordered approximately 4 million courses of the vaccine. Of the 4 million courses, approximately 3.75 million courses have been manufactured, with the remaining courses on order. These courses are not being held in the Strategic National Stockpile; rather, they are being stored in bulk at cGMP-compliant storage facilities of the vaccine manufacturers awaiting instructions for formulation and fill finish into final containers. HHS will review clinical results from studies this summer which may indicate that adding adjuvant to the H5N1 vaccine may boost immune response to those who receive the vaccination. Once these results have been obtained and all doses are formulated and filled accordingly, they may be distributed to critical workforce groups as needed. Currently plans are for the H5N1 vaccine to reside with the vendor or vaccine manufacturer until deployment.

Question. Please summarize the FDA's ability, and timeframe necessary, in order to mass-produce vaccines for a human strain of H5N1?

Answer. FDA is actively engaged in facilitating the efforts of DHHS, manufacturers and other partners to develop and make available influenza vaccines, including those for the currently circulating H5N1 strain. While FDA can rapidly evaluate and approve the use of a new vaccine strain by a licensed manufacturer, and a new vaccine could start to become available within 4 months of its identification, current U.S. influenza vaccine manufacturing and the available technologies that support it are not adequate to quickly produce enough pandemic vaccine for the U.S. population. Therefore, we are aggressively supporting multiple efforts to increase manufacturing capacity using both new and existing technologies, including antigen sparing vaccines using both aluminum and novel adjuvants, which is a nonspecific simulators of immune response, as well as live attenuated vaccines, and cell-culture based and recombinant vaccines, which involves combining DNA from two or more sources. FDA scientists work with manufacturers throughout the year to collect information on the capability of new influenza viruses to be used for large-scale pro-

duction of influenza virus vaccines and to provide needed reagents and technical assistance. FDA has initiated annual inspections of licensed influenza vaccine manufacturers to help ensure that manufacturers are in compliance with good manufacturing practices, and to identify and, where possible, prevent problems ahead of time, and thus are able to manufacture safe and effective pandemic influenza vaccines in emergent circumstances.

Increasing the Agency's capacity to facilitate rapid evaluation, product testing, licensure, and production of vaccines is critical to expanding product availability, assuring timely and expert evaluation of product quality, supporting national preparedness and response capacities for pandemic influenza, and achieving public confidence in vaccine products. The funds requested for fiscal year 2007 are critical to achieving our goal of supporting a process whereby manufacturers can produce pandemic influenza vaccine in the shortest possible time to protect the greatest number of people, using a vaccine that is safe, effective, and easy to deliver.

With regard to vaccine production issues, we will use fiscal year 2007 requested funds to facilitate HHS and manufacturers' efforts to increase domestic manufacturing capacity to meet HHS goals, including a stockpile with enough vaccine to vaccinate 20 million people. FDA is supporting the longer term goals of HHS, manufacturers, and other partners to achieve pandemic surge production capacity that would make it possible to provide licensed vaccine for the entire U.S. population within 6 months of a strain being isolated, using a combination of current egg-based and, potentially, new high-volume, rapid response cell-based production. How quickly these goals can be met will in part be dependent on the results of current industry vaccine development programs, mostly assisted by HHS, including ongoing studies of adjuvanted and cell culture vaccines. In 2005, we were able to very rapidly facilitate the evaluation and U.S. licensure of an additional annual influenza vaccine, using our accelerated approval process, helping avoid major shortages. We will continue to do everything possible to facilitate both the process of vaccine development and the enhancement of manufacturing capacity, and Congress' support is critical in assuring FDA's capacity to both prepare for and respond to a pandemic.

Question. The budget proposes over \$55 million for pandemic flu preparedness. The very earliest this funding would be available is October 1, but we are hearing reports that the virus could arrive here in the United States, at least in birds, and potentially in humans, prior to that.

Do you believe we can afford to wait until the fiscal year 2007 bill to make this money available to FDA? If so, why? Would you support adding the additional funding to the pending supplemental in order to make it available more quickly?

Answer. Thank you for the opportunity to discuss the funding of FDA's Pandemic Preparedness activities. We appreciate your interest in supporting the FDA efforts in this initiative. The President's budget requests in fiscal year 2006 and fiscal year 2007 were carefully considered with respect to identifying the immediate needs and the urgent nature of the overall initiative. The most immediate needs are identified in the fiscal year 2006 supplemental request and the fiscal year 2007 request builds upon the activities identified in fiscal year 2006. In fiscal year 2006, total enacted funding for Pandemic activities is approximately \$24.8 million. Included in this number is the fiscal year 2006 \$20 million supplemental increase and approximately \$4.8 million in base spending. The \$20 million supplemental was received at the end of the first quarter of fiscal year 2006 and the funds were available on January 26, 2006.

The fiscal year 2007 total funding request for Pandemic Preparedness request is approximately \$55.3 million and includes the \$24.8 million from the fiscal year 2006 that includes the emergency supplemental appropriation and a requested increase of \$30.5 million over the fiscal year 2006 enacted level for pandemic influenza. We would be happy to provide the activities covered under the fiscal year 2006 supplemental request.

[The information follows:]

Food and Drug Administration Pandemic Influenza Request (Dollars in Millions)			
Pandemic Flu Vaccine Capacity	President's Proposed FY 2006 Supplemental	FTE	Description of Activities
CBER -- Enhance regulatory science base to facilitate new vaccines.....	16.7	75	Expand FDA capacity to facilitate the expedited development, evaluation and licensure of additional flu vaccines and manufacturing capabilities and capacity to meet pandemic preparedness needs, consistent with the DHHS Pandemic Influenza Strategic Plan. This includes developing and assessing new technologies, assuring the safety and effectiveness of vaccines, serving as consultants on product development and inspecting manufacturing facilities.
Office of Regulatory Affairs -- Post medical products/vaccines approval inspections.....	1.2	7	Experienced investigators will conduct bioresearch monitoring, drug manufacturer and flu vaccine manufacturer inspections, to assure product quality and prevent problems that threaten product safety or availability early in the development cycle. The requested resources will also allow ORA to expand current efforts to identify and intercept counterfeit products either claiming to prevent the flu or treat its symptoms.
Other Activities (OC) -- Office of Crisis Management/Office of Counterterrorism Policy.....	0.8	3	Support additional duties associated with strategic planning, policy leadership, coordination and communication of the FDA's pandemic influenza activities and design an agency-specific response to the threat of pandemic, consistent with the DHHS Pandemic Flu plan.
Other Activities (OM) -- IT/Systems Requirements.....	1.2	0	Modifications to IT Systems to ensure that critical information is available during the product life cycle.
Total FDA Request.....	20.0	85	

GENERIC DRUGS USER FEES/CITIZEN PETITIONS

Question. I understand that FDA believes it is time to implement a user fee program for generics. The generic drug industry has several criticisms of this idea. One is that they will still face many regulatory issues after their drug is approved. Another is that their budget has been chronically under funded—especially in relation to dollars spent approving new drugs, even without including user fee money.

How would you respond to these criticisms?

Answer. First, FDA has made significant investments to improve the generic drug review process with the funds appropriated by Congress. These investments have helped lower the median review time by 2 months. FDA has not made any decisions concerning a user fee program for generics. Given the existence of user fee programs for other product reviews, there have been suggestions that the idea may need to be explored, but these suggestions are general comments. There is no commitment to propose generic user fees and no formal Administration proposal for a generic user fee program. If a proposal is considered, we will certainly consider the concerns and criticisms about the proposal from the generic industry. We continue to work with the generic industry to address their current concerns with the Office of Generic Drugs.

Question. Have you begun working on legislation?

Answer. FDA has not made any decisions concerning a user fee program for generics, nor has the Agency begun work on legislation to enact such a program. Given the existence of user fee programs for other product reviews, there have been suggestions that the idea may need to be explored, but these suggestions are general comments. There is no commitment to propose generic user fees and no formal Administration proposal for a generic user fee program. If a proposal is considered, we will certainly consider the concerns and criticisms about the proposal from the generic industry. We continue to work with the generic industry to address their current concerns with the Office of Generic Drugs.

Question. It has been reported that one cause of unnecessary delays in getting generic drugs on the market are certain citizen petitions. I am aware that FDA is working on a study to figure out what the actual effects of these citizen petitions are. In last year's Senate report, we asked for an update on this study—including any changes FDA plans to make in the process. I understand that this report is still in your clearance process, but can you give us a preview of what we might be provided?

Answer. The Senate report is currently undergoing final clearance, but I would be happy to provide you with an overview of how FDA is addressing potential improvements to the citizen petition process. In response to the significant increase in the number of citizen petitions submitted to FDA's Center for Drug Evaluation and Research, CDER, and an increasing backlog of pending petitions, the Center's Office of Regulatory Programs or ORP, initiated an extensive review of CDER's processes for responding to citizen petitions.

The Office of Generic Drugs has made organizational changes designed to improve the citizen petition response process. The office has dedicated a specific group of scientists who will be responsible for addressing citizen petition responses. This organizational change is expected to increase the consistency, quality, and speed of the Office of Generic Drug's input on citizen petition responses.

ORP is currently undertaking an initial review of its citizen petition process improvement efforts. Although FDA has been implementing changes to its process for less than a year, the agency is trying to gather some early data to evaluate whether these new processes have been helpful and to examine whether additional improvements might be beneficial. The review and response to citizen petitions, however, requires careful and painstaking research, precise writing and editing, and thorough legal review to produce a document that is a clear representation of FDA's scientific and legal opinion of what are often very complex issues. This process requires input from many agency components.

In addition, ORP, the Office of Generic Drugs, and the Office of Chief Counsel plan to review blocking petitions that have been denied to consider such factors as the timing of the petition and the nature and age of the data upon which the petition was based. In some cases, individuals submitted petitions that were very close to the date of patent or exclusivity expiration were based on information that was readily available well before the petitions were submitted. Where we believe that further investigations may be warranted, the agency is considering the option to refer the cases to the Federal Trade Commission.

I would be happy to provide for the record a timeline for our recent activities related to improvements to the citizen petition process.

[The information follows:]

Timeline for Improvements to Citizen Petition Process

Fall of 2004.—ORP convened a process improvement team comprising representatives from ORP, the Office of New Drugs, and the Office of Generic Drugs and consulted with other offices involved in the petition process, such as the Office of Chief Counsel, to discuss improvements to the petition process.

October 2004 to May 2005.—The process improvement group generally met on a biweekly basis; sometimes more frequently. The group began by describing the existing process in detail and then looked for areas where FDA could make improvements and achieve efficiency.

June 2005.—ORP finalized new procedures to improve the citizen petition process and began full implementation of process improvements. ORP instituted some of these improvements while the meetings to identify improvements were ongoing.

May and June 2005.—ORP presented process improvement efforts to senior management within CDER and various groups involved in working on citizen petition responses.

Currently.—ORP is documenting its new procedures in a Manual of Policies and Procedures, also known as MAPP.

GENERIC DRUG APPROVAL

Question. I appreciate your response to my letter of February 6th, regarding generic drugs and the FDA strategic redeployment. However, there were some questions that were not answered.

What additional staffing and funding would be required to decrease the backlog of generic drug applications by 1/3 over the next fiscal year?

Answer. FDA understands that Congress and the public are concerned about the high cost of prescription drug products. Generic drugs play an important role in granting access to products that will benefit the health of consumers and the government. Prompt approval of generic drug product applications, also known as abbreviated new drug applications, or ANDAs, is imperative to making generic products available to American consumers at the earliest possible date. This has been a high priority for FDA.

FDA believes that making improvements in the process for the review of generic drug applications offers the best promise for reducing ANDA review time. Total spending on the Generic Drug Program is \$64.6 million, which is more than a 66 percent increase from the comparable fiscal year 2001 amount, and has helped lower the median review time. In addition, FDA believes that making improvements in the process for the review of generic drug applications offers the best promise for reducing ANDA review time. With this goal in mind, in fiscal year 2005, FDA's Office of Generic Drugs, or OGD, focused on streamlining efforts to improve the efficiency of the ANDA review process. OGD added chemistry and bioequivalence review teams and has taken steps to decrease the likelihood that applications will face multiple review cycles. OGD also instituted revisions to the review process such as early review of the drug master file as innovator patent and exclusivity periods come to an end, cluster reviews of multiple applications, and the early review of drug dissolution data.

In fiscal year 2006, we will build on these process improvements. We have begun a major initiative to implement Question-based Review for assessment of chemistry, manufacturing, and controls data in ANDAs. This improvement builds on the Quality-by design and risk-based review initiatives of FDA's Center for Drug Evaluation and Research. This mechanism of assessment is consistent with the International Conference on Harmonization Common Technical Document and will enhance the quality of evaluation, accelerate the approval of generic drug applications, and reduce the need for supplemental applications for manufacturing changes.

FDA's OGD will continue institute efficiencies in the review process to accelerate the review and approval of ANDAs. FDA will also continue to work very closely with the generic manufacturers and the generic drug trade association to educate the industry on how to submit applications that can be reviewed more efficiently and that take advantage of electronic efficiencies that speed application review. We will also work with new foreign firms entering the generic drug industry. The agency recognizes that it will take time for these new firms to understand the requirements for generic drug products. In the long term, however, these efforts should shorten overall approval time and increase the number of ANDAs approved during the first cycle of review. In fiscal year 2006, FDA plans to spend \$62.8 million relating to generic drugs and, specifically, \$28.3 million in OGD. In fiscal year 2007, FDA plans to spend \$64.6 million relating to generic drugs and \$29 million in OGD.

Question. What additional staffing and funding is required to decrease the length of time it takes to approve a generic drug application by 25 percent?

Answer. FDA recognizes that generic drugs play an important role in granting access to products that will benefit the health of consumers and the government. The total spending on the Generic Drugs Program is \$64.6 million, which is more than a 66 percent increase from the comparable fiscal year 2001 amount. This has helped lower median drug review time by 2 months. FDA believes that making improvements in the process for the review of generic drug applications offers the best promise for reducing Abbreviated New Drug Application, also known as ANDA, review time. With this goal in mind, in fiscal year 2005, FDA's Office of Generic Drugs, or OGD, focused on streamlining efforts to improve the efficiency of the ANDA review process. In fiscal year 2006, we will build on these process improvements, including efforts to implement Question-based Review. FDA's OGD will continue institute efficiencies in the review process to accelerate the review and approval of ANDAs. FDA will also continue to work to educate the industry on how to submit applications that can be reviewed more efficiently. We will also work with new foreign firms entering the generic drug industry. The agency recognizes that it will take time for these new firms to understand the requirements for generic drug products. In the long term, however, these efforts should shorten overall approval time and increase the number of ANDAs approved during the first cycle of review.

Question. Please provide the number of new drug applications that have been submitted and approved in each of the last 5 years, including the average timeframe for approval. How does this number compare with the number of generic drugs that have been submitted and approved?

Answer. I would be happy to provide that information for the record.

[The information follows:]

The following two tables provide a 5-year summary of approval statistics for new drugs. Please note: The submissions approved in a particular fiscal year are not necessarily filed in that fiscal year.

APPROVAL TIMES FOR PRIORITY AND STANDARD NEW DRUG AND BIOLOGIC APPROVALS, NDAS/BLAS FISCAL YEARS 2001 TO 2005—APPROVAL TIMES IN MONTHS

Fiscal year	Priority			Standard		
	Submissions Filed	Number Approved	Mean Approval Time	Submissions Filed	Number Approved	Mean Approval Time
2001	10	10	7.9	86	61	17.8
2002	12	10	14.3	84	54	19.4
2003	19	14	18.2	82	72	21.9
2004 ¹	28	19	13.8	94	74	19.7
2005 ¹	32	27	10.1	71	82	20.6

¹ Beginning in fiscal year 2004, CDER figures include BLAs for therapeutic biologic products which were transferred from CDER to CBER.

APPROVAL TIMES FOR PRIORITY AND STANDARD NEW MOLECULAR ENTITIES, NMES AND NEW BIOLOGICS FISCAL YEARS 2001 TO 2005—APPROVAL TIMES IN MONTHS

Fiscal Year	Priority NMES/New Biologics ¹			Standard NMES/New Biologics ¹		
	Number Filed	Number Approved	Mean Approval Time	Number Filed	Number Approved	Mean Approval Time
2001	8	5	8.5	24	10	24.7
2002	8	8	13.7	14	14	16.4
2003	12	8	9.0	17	13	21.6
¹ 2004	18	13	12.7	15	14	22.8
¹ 2005	18	17	12.4	14	10	25.5

¹ Beginning in fiscal year 2004, CDER figures include BLAs for therapeutic biologic products which were transferred from CDER to CBER.

The following table provides information regarding generic drug approvals

APPROVAL TIMES FOR GENERIC DRUG FISCAL YEARS 2001 TO 2005—APPROVAL TIMES IN MONTHS

Fiscal Year	Receipts of Original ANDAs	Number of Approvals	Mean Approval Time	Median Approval Time
2001	307	241	20.9	18.4
2002	361	296	21.4	18.3
2003	449	284	20.7	17.3
2004	563	320	20.5	16.3
2005	766	361	19.5	16.3

Question. What total funding has been spent annually on approval of new drugs for the past 5 years? Please list appropriated funding and user fees separately.

Answer. I would be happy to provide the amount spent annually on the approval of new drugs in the past 5 years for the record.

[The information follows:]

FUNDING TOTALS FOR NEW DRUGS

	Amount
Fiscal year 2001:	
Appropriated Funding	\$76,000,000
User Fees	47,500,000
Total	123,500,000
Fiscal year 2002:	
Appropriated Funding	70,000,000
User Fees	49,300,000
Total	119,300,000
Fiscal year 2003:	
Appropriated Funding	75,000,000
User Fees	56,500,000
Total	131,500,000
Fiscal year 2004:	
Appropriated Funding	72,000,000
User Fees	76,900,000
Total	148,900,000
Fiscal year 2005:	
Appropriated Funding	75,200,000
User Fees	83,400,000
Total	158,600,000

DRUG ADVERTISING

Question. I understand that FDA issued approximately 15 warning letters to drug companies regarding advertisements in 2005, an increase from the past several years. As we all know, though, the number of drugs ads has also increased. I am pleased that drug companies have published guidelines for their ads, and appear to be working with the FDA to try to ensure that ads are more responsible and presented fairly. I believe FDA is working on guidance to be published this year to assist drug companies in that effort.

Can you give us an update on FDA's activities relating to drug ads? Is it still FDA's position that companies should not be required to submit ads to FDA prior to their publication?

Answer. On November 1 and 2, 2005, the FDA held a two-day public hearing to provide an opportunity for broad public participation and comment on direct-to-con-

sumer, also known as DTC, promotion of regulated medical products, including prescription drugs for humans and animals, vaccines, blood products, and medical devices. FDA is in the process of developing additional guidance for industry. Our major effort is a draft guidance to address the presentation of risk information in prescription drug and medical device promotion. Another effort is to finalize the draft guidance on the brief summary of risk information for the page adjacent to direct-to-consumer print advertisements for prescription drugs. FDA will conduct a series of three studies to examine the format and content of brief summaries in direct-to-consumer print advertisements to assist the agency in finalizing this draft guidance. FDA is also working to finalize the draft guidance on criteria FDA uses to distinguish between disease awareness communications and promotional materials, to encourage manufacturers to disseminate educational messages to the public, and the guidance on the manner in which restricted device firms can comply with the rules for disclosure of risk information in consumer-directed broadcast advertising for their products. FDA has created a Promotion Steering Committee to leverage policy development for prescription drug promotion, including DTC promotion. The committee consists of representatives from the Office of the Commissioner, Office of Chief Counsel, and each center responsible for medical products. The committee meets to determine how to best allocate our limited resources for policy development.

Under current law and regulations, FDA cannot require companies to submit promotion materials prior to use. In addition, there are tens of thousands of promotional pieces per year, prior review, even if authorized, would be a major challenge.

Question. If legislation were enacted calling for prior approval of prescription drug ads before airing, would your agency have adequate personnel and resources to meet this mandate? Could you provide us more information on this?

Answer. The Administration has not established a position on the legislative proposal you describe. The Center for Drug Evaluation and Research receives over 54,000 pieces per year, of which 9,000 are direct-to-consumer, or DTC. Of the 9,000 pieces of DTC final materials, only 467 are sent in as proposals. Providing timely review of these promotional material would represent a tremendous increase in workload and FDA could not conduct timely reviews of these promotional material with the resources available.

FDA feels that it is highly valuable to the public for us to review and provide advice to manufacturers about broadcast advertisements while they are being produced. Therefore, we have made that one of our highest priorities. This helps ensure DTC compliance and reduces the number of advertisements that might otherwise violate the Food, Drug & Cosmetic Act from appearing in public.

FOOD DEFENSE

Question. Dr. Von Eschenbach, the past several years have seen huge increases for "food defense": \$20.5 million in fiscal year 2004, \$35.5 million in fiscal year 2005, \$10 million in fiscal year 2006, and the budget this year proposes an increase of nearly \$20 million.

In your written statement, you spend just under two pages discussing what this money will buy. FERN Labs, eLexnet systems, and Emergency Operations Networks all sound, and I'm sure in fact are, very important, but this is a lot of money, and I think we should spend a little more time focusing on it—especially if these increases are coming at the expense of other activities.

Can you walk us through a scenario that illustrates how this money will be used, in a practical way, to prevent or contain an outbreak involving contaminated food of drugs? How are we safer now that all of this money has been spent?

Answer. In one such scenario, a truck driver for a food manufacturing plant introduces a biological, chemical, or radiological agent into truck loads of a byproduct en route between the food manufacturing plant and one of several plants that converts the byproduct into a usable food ingredient. The food ingredient is distributed nationwide as well as overseas. The ingredient is used in the manufacture of a variety of seemingly unrelated food items. Many of these food items are themselves used as ingredients in other foods. Consequently, contaminated ingredients from several plants would end up in a large number of foods, under a variety of brand names, with national distribution.

Food Emergency Response Network, or FERN, laboratory testing in the scenario listed above would likely include finished product testing of foods implicated in human illness; and, food of the same lots as those implicated in human illness at various points in the production and distribution systems totaling approximately 100,000 samples for analysis. To fully recover from this scenario or from a terrorist

attack or national emergency, FDA would need to conduct recalls, seizures, and/or disposal of contaminated food which would then restore confidence in the Nations food supply.

Food Defense funding supports FDA's five key areas of awareness, prevention, preparedness, response, and recovery. FDA strives to increase awareness of the role of food as a vehicle for terrorism, various illnesses, and symptoms that are caused by foodborne threat agents; and, by educating and coordinating the dissemination of information to State and local partners, relevant associations, and industry. With Food Defense funding, FDA is able to conduct surveillance, inspectional and sampling programs to monitor manufacturers and their products for the presence of threat agents where such an intentional tampering may be found prior to full human consumption. FDA studies food prevention technologies to improve the safety of food and establish guidelines and or performance standards for industry which might prevent the contamination altogether. FDA has worked on method validation and matrix extension to strengthen the Nation's food testing laboratory capability in order to be prepared to quickly detect threat agents in the food supply. In addition, the FERN provide response capabilities by rapidly testing large numbers of samples of food. The Emergency Operations Network, or EON, is an enhanced communication system that provides seamless information access to all FDA offices, enabling them to respond quickly to the full range of FDA emergencies.

Question. With regard to the technology we are buying and labs we are outfitting—are they flexible? Can they be used for other activities when there are no emergencies? How do they complement or duplicate similar USDA labs?

Answer. Many of the agents we are concerned about in food defense are also of food safety concern. Therefore, the equipment is useful for our routine food safety surveillance programs as well as food defense activities. The state Food Emergency Response Network, or FERN, Chemistry laboratories that were awarded FDA FERN chemistry Cooperative Agreements in fiscal year 2005 are utilizing the equipment and resources provided by FDA to increase capability of FERN analytical methods and for surveillance of the food supply. Currently, these laboratories are actively engaged in increasing the number of analytes and food commodities that the current FERN Chemistry methods can detect. This method validation work not only increases the capabilities of the Cooperative Agreement laboratories but also increases the capabilities of the entire FERN Network when the expanded methods are shared with all FERN Chemistry laboratories.

In addition, the Cooperative Agreement laboratories are involved in the surveillance of the food supply through ad hoc analysis of food commodities for Food Defense analytes. These surveillance analyses are based on vulnerability and risk assessments. This surveillance sampling provides a wider food shield and an opportunity to demonstrate and assess the capabilities, capacity, and communication within the FERN. Cooperative Agreement laboratories also analyze proficiency test samples throughout the year to demonstrate their continuing capability to analyze particular food commodities for identified analytes. These proficiency test samples build confidence in each laboratory's ability to find threat agents in a variety of food commodities, were there to be terrorist attack or a national emergency.

To avoid duplication, FDA has taken the lead in funding both Chemistry and Radiological FERN laboratories to build capability and capacity for these disciplines across the Nation, whereas United States Department of Agriculture, or USDA, is responsible for funding the Microbiological laboratories. Therefore, our coordinated efforts are complementary to FDA's overall FERN program.

Question. Do you anticipate a time we won't have to provide huge increases every year for these activities—when will we simply be able to maintain our safeguards?

Answer. Thank you for the opportunity to address FDA's efforts to safeguard the food supply from attack. FDA regulates \$240 billion worth of domestic food and \$15 billion of imported food. The American food industry contributes approximately 20 percent of the U.S. Gross National Product, employs about 14 million individuals, and provides an additional 4 million jobs in related industries. FDA's capacity to defend the food supply from attack and to maintain consumer confidence in our ability to do so has significant impacts on the public health and the Nation's economy.

Our plan for food defense aligns with the mandate of Homeland Security Presidential Directive-9, which establishes a national policy to defend the food and agriculture system. Among the key food defense projects funded to date is the Food Emergency Response Network, or FERN. FERN establishes and expands a national laboratory network to increase analytic surge capacity for biological, chemical and radiological agents in food. Other key food defense projects include targeted food defense research; targeted, risk-based inspections; Biosurveillance, to improve coordination and integration of existing food surveillance capabilities under the government-wide Biosurveillance Initiative; and emergency Operations Network Incident

Management System, to upgrade and expand FDA's management and coordination capabilities for responding to incidents affecting the U.S. food supply.

FDA conducts these activities in the context of an ever-increasing volume of imported foods and the growing complexity of the food industry and of the technologies used in food production and packaging. This transformation will continue to present fresh challenges for FDA and for the plans and strategies we use to defend the food supply from attack. We will direct any food defense funding provided in fiscal year 2007 to address these new challenges, to build upon past successes, and to strengthen our capabilities to address terrorist threats to the food supply.

Although the Administration has not formulated a budget for fiscal year 2008 and later years, the long-term recommendation for the FERN program is for FDA to achieve a total of 50 state laboratories. With the funding in our fiscal year 2007 budget, we estimate that we will increase the number of operational facilities to 16 laboratories. You are correct in pointing out that we will not need budget increases to expand the number of FERN laboratories once we establish all of these labs. However, there may still be an annual need for resources to maintain and support FERN labs.

UNIFORM FOOD SAFETY

Question. Does FDA support the National Uniformity for Food Act as passed recently in the House of Representatives? Please explain why or why not.

Answer. The Administration has not taken a position on this legislation.

POST-MARKETING STUDIES

Question. What activities, if any, is FDA undertaking in order to decrease the number of post-marketing studies that have been pledged to FDA but not yet undertaken? Does FDA see this as a problem? Why or why not?

Answer. Postmarketing Study Commitments, also known as PMCs, for approved drug products, including biological drugs, are studies that a product sponsor either is required or agrees to conduct after FDA approves a product for marketing to further define the safety, efficacy, or optimal use of a product. FDA closely monitors the status of PMCs to ensure that product sponsors initiate and complete the studies in a timely manner. In some cases, the studies can take years to complete, even if everything is on schedule. In other cases, there are considerable obstacles, such as difficulty in recruiting patients and investigators to participate in a clinical trial when an approved therapy is available. Sponsors must resolve these issues before they can complete the studies. When obstacles arise, FDA works closely with sponsors to address these obstacles. Approximately 38 percent of the currently pending PMCs for new drug applications were established in applications approved between October 1, 2003 and September 30, 2005. Depending on the complexity of the study, FDA would expect that many of these studies would not have been initiated yet.

As of the Senate Hearing date, FDA had planned to undertake a review of the decision-making process behind requests for PMCs but had not formally issued a contract. On April 5, 2006, FDA awarded a contract to an outside organization to conduct a thorough evaluation of the postmarketing study commitment process for collecting medical information. The contractor will examine in-depth the agency's internal processes regarding PMCs and make recommendations regarding ways to improve FDA's PMC processes and practices. The outside contractor will evaluate how review divisions decide whether to request PMCs, how divisions make decisions surrounding what kinds of PMCs to request, and how divisions establish reasonable timeframes for completing PMCs. The study will serve to assist FDA in determining whether industry needs better guidance regarding PMCs and to ensure there is a standardization of the procedures. In addition, the Centers within FDA also have undertaken activities to improve the response on postmarketing and post-approval studies.

FDA takes its statutory obligations under the Food and Drug Administration Modernization Act of 1997 to track and monitor the progress of PMCs very seriously. FDA recently published a final guidance for industry to describe in greater detail the content, format, and timing of PMC annual status reports submitted by the drug industry. Furthermore, FDA reports annually in the Federal Register on the performance of applicants in conducting their PMCs and maintains a public Web site that contains the basic information that FDA committed to make available to the public. These initiatives, along with other FDA internal procedures, are all intended to ensure that industry undertakes their commitments and completes them in a timely manner.

On January 1, 2005, the Center for Devices and Radiological Health, also known as CDRH, initiated the use of the new Condition of Approval Tracking System. As

of that date, all postapproval studies are entered into the system, along with the due dates of any agreed upon report deliverables. CDRH monitors the system daily to see that sponsors are honoring their commitments. Procedures are in place to notify the sponsor immediately if deadlines are not met, and also to acknowledge the receipt of reports that are on time and are reviewed. Under the new system, all reports have been delivered on time.

CDRH is also developing the Postapproval Study Web site that will be available to the public. This Web site will list the postapproval studies being done, briefly describe the study, and document the status of studies, as reported by industry.

FDA believes that changes to the Condition of Approval study program will improve communication with industry about these studies and increase collaboration in designing high quality studies with targeted end points. The results of these studies will be important to FDA, industry and the health care community. Acknowledgement of receipt of study reports and follow-up on overdue reports will encourage compliance. Finally, we believe the public Web site will prompt industry to conduct the studies and report to FDA on time.

MICROBIOLOGICAL DATA PROGRAM

Question. The USDA is proposing to eliminate that Microbiological Data Program, currently carried out by the Agricultural Marketing Service. One reason offered for this proposal is that FDA currently undertakes, or will continue, the work of this program. Reports of increased food illnesses from fruits and vegetables appear to highlight the importance of the Microbiological Data Program.

Has FDA worked with AMS in order to ensure that none of the sampling currently carried out through the Microbiological Data Program will be eliminated?

Answer. As a science-based agency, FDA collects data that can be used to direct policy decisions, risk assessments, regulatory actions, and other actions. In comparison, the Microbiological Data Program, or MDP, program of the USDA Agricultural Marketing Service, also called AMS, is a non-regulatory sampling survey. Because the MDP program is not bound by the same regulatory requirements as FDA, it provides an opportunity for collection of a much larger data set. However, the MDP is not designed to provide the same source information, traceback, or support for regulatory follow-up that are built into the FDA sampling assignments. If a positive sample is found in an FDA produce sampling assignment, follow-up action can be taken, while the design of the MDP program does not allow for follow-up. Therefore, if AMS does eliminate the MDP program, it would not produce a surveillance gap as FDA defines this term.

Question. Is FDA already working on similar activities?

Answer. Since 1999, FDA has routinely issued sampling assignments for selected commodities produced both domestically and abroad. The purpose of FDA's produce sampling assignments is to gather information on both the incidence of contamination and the practices and conditions associated with contaminated produce and to take regulatory action, as appropriate, when contaminated produce is found. The FDA sampling assignments differ from the Agricultural Marketing Service's Microbiological Data Program, also known as MDP, in important ways. FDA samples are routinely collected at the farm gate or packinghouse for domestic produce or at the border for imported produce. With domestic samples, if contamination is present, it must have occurred at the farm or packing facility. MDP samples are routinely collected at a later stage of the supply chain, such as a distribution center, making it more difficult to narrow down where contamination might have occurred. The MDP program is a blind study. It does not collect information about the samples that would allow traceback to the source; therefore, it does not provide an opportunity to visit farms or packinghouses associated with positive sample to gather information about practices or conditions at those firms that may have led to contamination. FDA samples are tested in FDA laboratories, while MDP samples are tested at state laboratories. FDA data have a relatively well known performance standard across the United States.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

AFLATOXIN

Question. Late last year, a pet food company based in South Carolina initiated a recall of dog food that had been made with corn contaminated with aflatoxin, produced by mold that sometimes develops in crops under drought or other weather stress conditions. The death of dozens of dogs has been attributed to consumption of this product both before and after the recall was announced.

What steps has FDA taken to address this situation to ensure the recall is fully and effectively completed?

Answer. FDA determined that this situation represented a serious life-threatening health hazard to pet dogs and pet cats and classified this recall as Class I. In a Class I Recall, FDA requests that the firm conduct 100 percent effectiveness checks of their consignees to confirm that they received notification about the recall and have taken appropriate action. Additionally, our Atlanta district office issued audit check assignments in coordination with the Center for Veterinary Medicine to determine the effectiveness of the company's recall. The vast majority of FDA audit checks are completed and show the recall of dog food to be effective. FDA will monitor the disposal of all recovered products. FDA will terminate this recall when disposition of the recalled products is finalized.

Question. How can we assure the pet owners of this country that this kind of event won't happen again?

Answer. As part of the investigation, FDA evaluated the company's descriptions of the actions it has implemented at all of its plants to ensure that an aflatoxin event does not happen again and found the corrective actions acceptable. This situation generated much attention and has served as a reminder to the pet food industry of the importance of using appropriate manufacturing and quality control procedures.

BIOTERRORISM

Question. In December of 2004, the outgoing Secretary of Health and Human Services Tommy Thompson stated "I, for the life of me, cannot understand why the terrorists have not attacked our food supply, because it is so easy to do." The President's 2007 budget increases funding for food defense to continue lab preparedness efforts and expand State laboratories. However, it cuts funding for food import inspections at ports of entry which a terrorist might use to smuggle contaminated food products into the country. Since 1994, food imports have grown five-fold to 6 million food import shipments annually, but the FDA inspects less than 2 percent of these shipments.

Won't these proposed budget cuts for import inspection and testing actually weaken FDA's ability to prevent an attack on the food supply and make more likely the event that Secretary Thompson predicted?

Answer. For fiscal year 2007, FDA is requesting an increase of \$19.9 million in food defense to a total request of \$178.2 million. This is a 21,500 percent increase in funds from fiscal year 2001. The funds requested would continue to improve laboratory preparedness and food defense field operation, food defense research, surveillance, and incident management capabilities. FDA uses a risk-based approach to allocate resources. By focusing on risk through the cooperative work of Customs and Border Protection, or CBP, FDA's Prior Notice Center, and FDA field examinations, we will work smarter to target higher risk products, manufacturers, and importers to ensure the safety of the public health, protect the Nation's food supply and prevent an attack on the Nation's food supply.

For example, currently, working with information submitted through CBP's electronic systems used for import entries or through FDA's internet-based Prior Notice System Interface, FDA screens shipments electronically before they arrive in the United States to determine if the shipments meets identified criteria for physical examination or sampling and analysis or warrants other review by FDA personnel. This electronic screening allows FDA to better determine how to deploy our limited physical inspection resources at the border on what appear to be higher-risk food shipments while allowing lower-risk shipments to be processed in accordance with traditional import procedures after the electronic screening.

Question. Instead of cutting border inspection, shouldn't the Bush administration apply more resources to food import inspections to bolster our defenses against bioterrorism?

Answer. Through smart allocation of FDA resources, fine tuning FDA's risk based approach, and smarter screening criteria, the FDA will be able to continue ensuring a safe food supply and protecting the public health despite cuts in border inspections, which will allow funding to other higher risk food defense and lab preparedness areas.

SUNSCREEN

Question. Skin cancer is on the rise in the United States. A significant contributor is exposure to UVA rays. FDA has been developing a monograph for sunscreens since 1978 to address the critical issue of UVA rays but has not, thus far, issued it. As part of the Fiscal year 2006 Agriculture Appropriations Act, FDA was asked

to issue a “comprehensive final monograph for over-the-counter sunscreen products, including UVA and UVB labeling requirements within 6 months of enactment.”

What is the status of the monograph?

Answer. We are currently working on a rulemaking for OTC sunscreen drug products to address both UVA and UVB labeling requirements.

Question. Will the monograph be issued by May 10th, the date the fiscal year 2006 Act requires?

Answer. We are working to publish the document for this rulemaking in the Federal Register.

GENERIC DRUGS

Question. Generic drugs help to make health care more affordable. Currently, FDA has a backlog of 850 applications for generic drugs—there are expected to be more over the next several years. Yet, the President's budget flat funds the Office of Generic Drugs. In your testimony before the Committee, you stated that generics were reviewed in priority order, meaning that new generics for branded drugs without a generic counterpart would be bumped to the front of the line. However, more price competition between generics is also a valuable way to decrease the price consumers pay for drugs. Therefore, I believe prioritization is not, in and of itself, a sufficient solution to the problem. In addition, approval delays effectively extend the patent life of branded drugs despite Congress' clear intention otherwise. FDA has increased its generic drugs Full Time Evaluators (FTEs) from 134 in 2001 to 201 in 2006. Despite the increase, I am concerned FDA is not devoting enough personal and resources to generic drugs given the current workload and the future increase.

How many FTEs would be required to eliminate the current backlog within the next year?

Answer. FDA understands that Congress and the public are concerned about the high cost of prescription drug products. Generic drugs play an important role in granting access to products that will benefit the health of consumers and the government. Prompt approval of generic drug product applications, also known as abbreviated new drug applications, or ANDAs, is imperative to making generic products available to American consumers at the earliest possible date. This is a key priority for FDA. Since 2001, FDA has increased spending on the Generic Drugs Program to \$64.6 million for fiscal year 2007, which is more than a 66 percent increase from the comparable fiscal year 2001 amount. This has allowed FDA to reduce median review time by 2 months.

FDA believes that making improvements in the process for the review of generic drug applications offers the best promise for reducing ANDA review time. With this goal in mind, in fiscal year 2005, FDA's Office of Generic Drugs, or OGD, focused on streamlining efforts to improve the efficiency of the ANDA review process. OGD added chemistry and bioequivalence review teams and has taken steps to decrease the likelihood that applications will face multiple review cycles. OGD also instituted revisions to the review process such as early review of the drug master file as innovator patent and exclusivity periods come to an end, cluster reviews of multiple applications, and the early review of drug dissolution data.

In fiscal year 2006, we will build on these process improvements. We have begun a major initiative to implement Question-based Review for assessment of chemistry, manufacturing, and controls data in ANDAs. This improvement builds on the Quality-by design and risk-based review initiatives of FDA's Center for Drug Evaluation and Research. This mechanism of assessment is consistent with the International Conference on Harmonization Common Technical Document and will enhance the quality of evaluation, accelerate the approval of generic drug applications, and reduce the need for supplemental applications for manufacturing changes. FDA believes that these process improvements will work to make more generic drugs available to the public.

FDA's OGD will continue institute efficiencies in the review process to accelerate the review and approval of ANDAs. FDA will also continue to work very closely with the generic manufacturers and the generic drug trade association to educate the industry on how to submit applications that can be reviewed more efficiently and that take advantage of electronic efficiencies that speed application review. We will also work with new foreign firms entering the generic drug industry. The agency recognizes that it will take time for these new firms to understand the requirements for generic drug products. In the long term, however, these efforts should shorten overall approval time and increase the number of ANDAs approved during the first cycle of review. In fiscal year 2006, FDA plans to spend \$62.8 million relating to generic drugs and, specifically, \$28.3 million in OGD. In fiscal year 2007, FDA plans to spend \$64.6 million relating to generic drugs and \$29 million in OGD.

Question. How much would that cost?

Answer. FDA recognizes that generic drugs play an important role in granting access to products that will benefit the health of consumers and the government. FDA believes that making improvements in the process for the review of generic drug applications offers the best promise for reducing ANDA review time. With this goal in mind, in fiscal year 2005, FDA's Office of Generic Drugs, or OGD, focused on streamlining efforts to improve the efficiency of the ANDA review process. In fiscal year 2006, we will build on these process improvements, including efforts to implement Question-based Review. FDA's OGD will continue institute efficiencies in the review process to accelerate the review and approval of ANDAs. FDA will also continue to work to educate the industry on how to submit applications that can be reviewed more efficiently. We will also work with new foreign firms entering the generic drug industry. The agency recognizes that it will take time for these new firms to understand the requirements for generic drug products. In the long term, however, these efforts should shorten overall approval time and increase the number of ANDAs approved during the first cycle of review.

Question. Does FDA estimate the number of future Abbreviated New Drug Applications when making decisions to allocate resources to hiring and training FTEs?

Answer. FDA attempts to project application numbers by ongoing tracking of receipts and by looking at the products that will be going off patent as well as other industry forecasts of trends. FDA also ensures that it can meet the specified budget earmark for the generic drug review program.

EARLY FOOD SAFETY EVALUATION

Question. I understand your agency is nearing publication of its final Early Food Safety Evaluation, (EFSE) guidelines. I'm happy to hear that as it is an important issue for American agriculture and I look forward to its release.

Can you offer us more specifics on when we can expect to see final publication?

Answer. We are moving to complete the last steps necessary to finalize the guidance. For example, we are currently nearing completion of the requirements of the Paperwork Reduction Act of 1995. The comment period for the Notice for the agency information collection activities recently closed on March 13, 2006. We expect publication soon after completion of these final steps.

FOOD IMPORTS

Question. More than 80 percent of the seafood and an estimated 20 percent of fresh produce that Americans consume is imported. Increasingly, imported foods are the source of food-borne illness. For example, in 2003, a hepatitis A outbreak associated with green onions imported from Mexico sickened over 550 people, killing at least 3. There are many other examples of contaminated food that caused large scale outbreaks and fatalities in the last 10 years.

How do you intend to improve FDA's oversight of imported food?

Answer. FDA will continue to implement the Public Health Security and Biodefense Preparedness and Response Act of 2002, which provides FDA with authorities aimed at enhancing the security of imported foods. For example, the requirement for domestic and foreign facilities to register with FDA will help FDA quickly identify, locate, and notify the facilities that may be affected in the event of a potential or actual terrorist incident or outbreak of foodborne illness. The advance information about imported food shipments, provided under the prior notice requirement, enables FDA, working closely with Customs and Border Protection, or CBP, to more effectively target inspections of food at the border at the time of arrival to ensure the safety and security of imported food. This advance notice not only allows FDA's and CBP's electronic screening systems to review and screen the shipments for potential serious threats to health, intentional or otherwise, before food arrives in the United States, but it also allows FDA staff to review prior notice submissions for those products flagged by the systems as presenting the most significant risk and determine whether the shipment should be held for further investigation.

For fiscal year 2007, FDA is requesting an increase of \$19.9 million in food defense to a total of \$178.2 million. This is a 21,500 percent increase in funds from fiscal year 2001. The funds requested would continue to improve laboratory preparedness and food defense field operation, food defense research, surveillance, and incident management capabilities.

FDA has worked to develop an automated risk-based import entry examination system. This system is designed to assess risk in individual import shipments. The system will combine expert knowledge, open source intelligence and advanced self-learning algorithms to dynamically assess entry-line level risk. In 2005, the first of a series of research and analysis papers on this system provided timely and relevant

information to serve as the basis for exogenous-source rules development for risk-based import examination. The goal in the project is to provide early identification and assessment of events, conditions, and situations in the world that could have an impact on the safety or security of FDA-regulated imports. The project is currently focused on imported seafood.

Question. How much would it cost to increase food import inspections from 2 percent to 5 percent or 10 percent?

Answer. During fiscal year 2005, the Field conducted approximately 85,000 Import Food Field Exams/Tests; analyzed approximately 25,550 food import lab samples; and, made 8,672,168 Import Line Decisions. Over 1.27 percent of food import lines were physically examined during fiscal year 2005. In addition, critical steps in our counter terrorism efforts are the Prior Notice Security Import Reviews. During fiscal year 2005, the Field conducted 86,187 Prior Notice Security Import Reviews in the foods area.

The mission of FDA's Prior Notice Center, or PNC, is to identify imported food and feed products that may be intentionally contaminated with biological, chemical or radiological agents, or which may pose significant health risks to the American public, and intercept them before they enter the United States. FDA will continue to focus resources on Prior Notice Import Security Reviews of products that pose the highest potential bioterrorism risks. The PNC uses a combination of adaptable targeting strategies and weighted risk indicators in the threat assessment process including contemporary intelligence involving terrorist activities, a history of prior notice violations, and compliance with admissibility standards as indicated by the results of import field exams, filer evaluations, firm inspections, repeated prior notice violations, and feedback from Field Investigators. By using a risk based approach, the Prior Notice Center can intercept potentially hazardous products before they enter the United States.

The benefit of these reviews comes from the quality and targeting of review activities; not from the volume of imports inspected. Thus, the quality of import screening is a better measure of FDA's import strategy rather than simply focusing on the items physically examined.

Question. Could FDA improve its oversight of imports if it had inspectors checking farms and factories in the country where our food originates?

Answer. FDA continues to enhance our risk based approach to target higher risk products, manufacturers, and importers with available resources. FDA-conducted foreign inspections are an important aspect of this multifold approach. It is important to understand, however, that this is only one component of our approach. We also use previous examination and laboratory sampling results, compliance information received from other domestic and foreign regulatory agencies, examination at the ports of entry, and general risk factors posed by the products in question to provide controls of the safety of import food commodities. FDA also focuses on risk by working cooperatively with Customs and Border Protection and through the FDA's 24/7 Prior Notice Center in counter- and bioterrorism targeting and evaluation of supply chain integrity.

Although foreign inspections and border operations provide some assurance that imported foods are safe, the agency continues to work to foster international agreements and harmonize regulatory systems. For example, we actively participate in the Canada/United States/Mexico Compliance Information Group, which shares information on regulatory systems and the regulatory compliance status of international firms to protect and promote human health. In addition, FDA is heavily involved in the Codex Alimentarius Commission Committees, which develop Codes of Practice and standards to harmonize international food safety practices.

FOOD RECALL

Question. The Food and Drug Administration (FDA) does not have mandatory authority to recall contaminated food products and instead relies on voluntary cooperation by food companies to get contaminated food out of supermarkets, restaurants, and consumers' homes. In a recent GAO study, FDA identified over 3,000 recalls of non-meat and poultry foods from 1986 to 1999 and GAO identified nine instances during that time where companies delayed or refused compliance with an FDA recall request.

Should FDA have mandatory recall authority in order to protect American consumers from contaminated food? Why or Why not?

Answer. The vast majority of food recalls are initiated voluntarily by firms when a problem is discovered, often after the product has entered the marketplace. It is the responsibility of the recalling firm to account for product remaining under its direct control, to quickly notify direct consignees of the identity of the product and

any potential hazard that it presents, and to request subrecalls where indicated. FDA monitors recalls and either discusses follow-up actions with the firm if it appears that the recall is not effective, or if necessary, takes direct action to complement actions taken by the firm. FDA encourages firms to conduct recalls that are effective and may take enforcement action to remove products from the market if a firm is unable or unwilling to do so.

When the hazard is significant, FDA expects that firms will initiate a public notification process to make the public aware of the problem and to recommend steps to be taken in order to prevent injury or illness. Recall notifications provide the corrective action necessary and a means for returning and/or reporting the status of the recalled product.

In the event that public notice is not provided or is not sufficient, FDA has and will continue to notify the public of the hazard.

Question. If a terrorist attack against the food supply occurred, how would FDA ensure the food was removed from the distribution chain, supermarket shelves, and people's homes?

Answer. The Public Health Security and Bioterrorism Preparedness and Response Act of 2002 includes a number of provisions that give new authority to FDA to take action to protect the food supply against the threat of intentional or accidental contamination of the food supply. If a terrorist attack on the food supply occurs, FDA would work with State and local food safety officials to remove products from store shelves and distribution channels. FDA would also work with the press to alert the trade industry and consumers about the potential hazard and would provide consumers with information on how and where to dispose of contaminated foods. We would include information to consumers on what they should do if they had been exposed to the contaminated food.

To ensure efficiency if an emergency occurred, FDA continues to take additional measures to improve the success of recalls. On November 3, 2003, FDA posted guidance to the industry on our website intended to assist industry in handling all aspects of a product recall, including all corrections and removals. We also continue to develop the Recall Enterprise System, which, when completed, will post recalls on our website in real time.

METHYLMERCURY

Question. FDA and EPA have issued a joint advisory warning pregnant women and women planning a pregnancy to avoid swordfish, shark, some types of tuna and king mackerel, since those fish accumulate large quantities of methylmercury which can harm their unborn children. Eating seafood is the leading cause of exposure to methylmercury, a toxin that can cause neurological damage to the developing fetus and young children.

Although the advisory is useful, some groups have complained that it is complicated and hard-to-remember. The Center for Science in the Public Interest recently recommended that all grocery stores and fish retailers should post the warning at the counter where consumers actually purchase the seafood.

Why doesn't FDA enforce the limit for methylmercury in seafood, e.g. test and remove seafood from the market that exceeds the limit of 1 ppm?

Answer. Risk from methylmercury is generally understood to derive from substantial exposure over time of many meals that include fish. That is why we issued a consumer advisory on methylmercury directed toward women of childbearing age and young children. We are conducting surveys to determine how the public, including pregnant women and health care providers, are reacting to the consumer advisory on methylmercury and to other information they may be receiving from all sources about seafood risks and benefits.

It is useful to note that data from the National Health and Nutrition Examination Survey, operated by the Centers for Disease Control and Prevention, that measures levels of methylmercury in U.S. women of childbearing age and young children through 5 years of age reveal that the overwhelming majority of both women of childbearing age and young children are exposed to methylmercury at very low levels. The next phase of our risk management process for methylmercury involves a risk analysis that is examining the likelihood of adverse effects through the range of exposures being experienced by U.S. consumers. This project is also examining the likelihood of health and nutritional benefits from eating fish at various levels of consumption.

Question. To make the advisory truly effective, why doesn't FDA require point-of-purchase notices giving consumers detailed information on which types of fish contain high levels of methylmercury at the fish counter?

Answer. FDA, in conjunction with the Environmental Protection Agency, or EPA, has implemented a cost-effective public education campaign. This campaign is designed to inform high-risk consumers about reducing their exposure to high levels of mercury, while emphasizing the health benefits of consuming fish and shellfish. This has resulted in raising awareness about methylmercury in seafood. We believe the steps that have been taken are more appropriate and more effective than using point-of-purchase signage to convey a complex consumer message. The program uses health professionals and the media to inform high-risk populations, including women who may become pregnant, pregnant women, nursing mothers and the parents of young children, about mercury in seafood. The goal is to inform these high-risk consumers that they should avoid or restrict their consumption of certain kinds of fish, while emphasizing the importance of fish and shellfish as part of a healthy diet.

The public education campaign includes an extensive outreach effort to over 9,000 print and electronic media outlets. FDA and EPA have also distributed over four million brochures about the advisory on methylmercury in fish and shellfish to members of over 50 organizations of healthcare providers to women and children. The brochures have also been given to all practicing pediatricians, obstetricians, gynecologists, nurse practitioners, and nurse midwives throughout the country for office distribution. And, finally, we distribute it through exhibits at medical and public health professional organization meetings. This information is also available on our Web site for use by States, food facilities, health care professionals, and consumer groups.

In August 2005, FDA launched an educational program entitled "Food Safety Moms-To-Be" that builds upon several food safety messages and includes information for use by health educators about the advisory on methylmercury in fish and shellfish. More than 45,000 Educator Toolkits, including an Educators Resource Guide, video, and DVD were sent to health professionals who have direct contact with pregnant women via pregnancy planning, prenatal and post-natal care, and childbirth education classes.

FDA also established a Web site for pregnant women to obtain information about foodborne safety. The Web site received more than 35,000 visitors in its first full month of September 2005, is available in both English and Spanish, and has an "email a friend" feature that allows users to share this information with others.

FOODNET

Question. The Foodborne Diseases Active Surveillance Network (FoodNet) is the principle foodborne disease component of CDC's Emerging Infections Program (EIP). It is a collaborative project of the CDC, FDA, and USDA. Unlike the direct funding that comes from USDA which has remained consistent, the funds from CDC and FDA are derived from the larger Food Safety Initiative and are thus subject to being reallocated. Over the last 5 years the program has experienced a 10 percent decrease in funding. Cuts to the FoodNet Program will have a direct effect on our Nation's ability to identify and track foodborne illness.

How have these cuts impacted our ability to identify and track foodborne illness?

Answer. FDA has provided a consistent level of funding in support of FoodNet over the years and has experienced no change in the availability of information we need to direct and evaluate the effectiveness of our regulatory programs. FDA will work with the Committee if specific funding information is needed from CDC.

Question. Do you support giving direct line item funding to the FoodNet Program?

Answer. While FDA believes that FoodNet is a valuable tool for identifying and tracking foodborne illness, which allows the agency to evaluate the effectiveness of its regulatory programs, FDA does not support giving direct line item funding to the FoodNet program in the FDA appropriation.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

IMPORTED PRESCRIPTION DRUGS

Question. Given the substantial price differences between products sold in the United States and abroad, it should come as no surprise that millions of Americans already import prescription drugs.

How much did the FDA spend in fiscal year 2005 to prevent Americans from importing prescription drugs from Canada and other countries?

Answer. FDA prevents unauthorized importation of drugs from other countries through post-market import inspections and post-market import laboratory analyses. In fiscal year 2005, the Office of Regulatory Affairs spent \$6.4 million on post-

market import inspections and \$1.7 million on post-market import laboratory analyses of human drug imports from all countries. Post-market import inspections are defined as physical inspections, product information, line entry & label review. They include all the activities relating to the decision to permit or refuse entry to regulated products. Examples include: import field exams, import sample collections, Operational and Administrative System for Import Support on-screen reviews, review of physical documents, detention without physical examination, private laboratory report review and audit activities, filer evaluation, and follow up to refusals. Post-market import laboratory analyses are defined as sample analysis, product testing, methods development for testing purposes, specific regulatory problems that FDA develops solutions for. They exclude applied research and premarket review analyses and include fingerprinting.

Question. Much of the apparatus for assuring safe consumer access to imported drugs is already in place. Under current law, drug companies are free to manufacture prescription drugs in other countries and import them for sale in the United States. More than \$40 billion of the prescription drugs consumed by Americans in 2002—one quarter of all drugs—was made in other countries and imported to the United States for sale by pharmaceutical manufacturers.

If importation can be deemed safe for manufacturers, why can't it be made safe for consumers? Wouldn't a regulated system be safer than what is occurring today?

Answer. 21 USC 381(d)(1) was included in the Federal Food, Drug, and Cosmetic Act with the understanding that the manufacturer of a drug product is in the best position to know if a drug product destined for import into the United States is their genuine product, and not a counterfeit, and whether it has been stored or handled in such a way as to affect the integrity of the product. Because counterfeiters are so sophisticated in their methods of copying drug products and packaging, consumers, distributors, and retailers, are not in a position to easily distinguish genuine from counterfeit drug product. Oftentimes, the manufacturer must perform costly and complicated analysis to determine if a product is genuine or not.

The HHS Drug Importation Task Force Report issued in December 2004 outlined the measures that would be needed to implement an importation program that provides adequate safeguards and resources to ensure that the imported drugs are safe and effective. A program that does not take these measures into consideration, regulated or not, would perpetuate the buyer beware situation that is currently occurring and consumers would continue to put themselves at risk for harm by importing unapproved drugs into the United States for personal use.

Specifically, the Task Force made a number of significant finding about an importation program. The Task Force determined that first, integrity of the distribution system must be ensured by, among other measures, requiring drug pedigrees with adequate documentation, limiting ports of entry and distribution channels, and allowing commercial importation only from licensed foreign wholesalers to authorized sellers in the United States. The program must exclude personal shipments via the mail and courier services. Indeed, regulating personal importation could be extraordinarily costly, on the order of \$3 billion a year based on estimates of the current volume.

Second, any program must limit importation to those prescription drugs most likely to yield savings—namely high-volume products for which a United States—approved generic is not available—and allow importation only from countries for which we have a high degree of confidence in the comparability of their drug regulatory systems. In the Administration's view, Canada is the only country from which importation should be considered at this point. Congress should also exclude drugs or classes of drugs that pose increased safety risks in the context of importation, such as controlled substances and drugs that require refrigeration during shipping.

Third, any program must require that imported prescription drugs be dispensed pursuant to a valid U.S. prescription pursuant to advice from a trusted medical professional.

Fourth, measures must be included to ensure that any purchasers of imported drugs are given full and adequate information regarding, among other things, the source of the drugs, and that packaging and labels on imported drugs meet all FDA requirements.

Fifth, any importation program must ensure effective oversight and adequate government resources to protect American consumers.

Sixth, any program must include the ability to use streamlined inspection procedures, and ensure appropriate remedial steps can be taken in the event of adverse events from imported drugs.

Seventh, any program must avoid anti-competitive provisions such as so-called "forced sale" provisions, and other types of price controls.

The Task Force found that such a system would have minimal cost savings.

Question. Congress has twice enacted legislation to allow for the importation of prescription drugs. Both times provisions were included that required the Secretary of Health and Human Services to certify that imported drugs would be safe and would result in significant savings for the American consumer. The Congressional Budget Office has already determined that legalizing importation will reduce prescription drug expenditures by \$50 billion. CBO estimates Federal savings of \$1.6 billion over the 2006–2010 period and \$6.1 billion over the 2006–2015 period. That takes care of the savings argument.

In terms of safety, how do you guarantee the safety of drugs that are sold in the United States? How did the FDA guarantee the safety of Vioxx? Why is the bar set higher for imported drugs?

Answer. At FDA, the Center for Drug Evaluation and Research, or CDER, is responsible for ensuring that America's drug product supply is safe, effective, adequately available, and of the highest quality. CDER's responsibility for ensuring drug safety is two fold, consisting of premarket safety review and postmarket safety surveillance. We evaluate the safety of a drug before it can be marketed in the United States in a pre-market safety review. FDA grants approval to drugs after a sponsor demonstrates that they are safe and effective for their intended use. Since the full magnitude of some potential risks do not always emerge during the mandatory clinical trials conducted before approval to evaluate these products for safety and effectiveness, if CDER approves a drug, we continue to monitor the safety of that drug after it is on the market by collecting data about its use and watching for signs of troubling or dangerous side effects. We call this post-market safety surveillance.

No drug product is "perfectly" safe. Moreover, FDA approval of a drug is not a "guarantee" that the drug is "perfectly" safe. All approved drugs pose some level of risk since every drug that affects the body will have some side effects. FDA considers both the benefits and risks of all medications before approval and unless a new drug's demonstrated benefit outweighs its known risk for an intended population, FDA will not approve the drug. Medications needed to treat very severe or life-threatening illnesses such as cancer treatments may be approved with more serious side effects than other types of medications. FDA makes sure the label or package insert accurately describes the benefits and risks discovered in the clinical trials and after marketing. With the help of a health-care provider, a patient should decide if the benefits for the drug outweigh the risks.

The pre-market process for approving drug products begins with the drug companies who must first test their products. CDER monitors their clinical research to ensure that people who volunteer for studies are protected and that the quality and integrity of scientific data are maintained. CDER assembles a team of physicians, statisticians, chemists, pharmacologists, and other scientists to review the company's data and their proposed use for the drug. If the drug is effective and we are convinced that it is safe for its intended use— meaning that its health benefits outweigh its risks, we approve it for marketing in the United States. CDER does not actually test the drug when we review the company's data. By setting clear standards for the evidence FDA needs to approve a drug, including evidence for demonstrating the safety of the drug for its intended use, the Agency helps medical researchers bring new drugs to American consumers more rapidly.

Once a drug is approved for sale in the United States, FDA monitors the use of marketed drugs for unexpected health risks, either through post-marketing clinical trials or through spontaneous voluntary reporting of adverse events from patients, doctors, and nurses through MedWatch system that are entered into the Adverse Event Reporting System, or AERS. Our safety reviewers monitor the data in AERS looking for indications of potential serious, unrecognized drug-associated reactions. If new, unanticipated risks are detected after approval, we take steps to inform the public and change how a drug is used or even remove a drug from the market.

Following the process and fundamental principles just described, FDA originally approved Vioxx in May 1999 for the reduction of signs and symptoms of osteoarthritis, as well as for acute pain in adults and for the treatment of primary dysmenorrhea. The original safety database included approximately 5,000 patients on Vioxx and did not show an increased risk of heart attack or stroke. A later study, VIGOR, which stands for VIOXX GI Outcomes Research, was primarily designed to look at the effects of Vioxx on GI effects such as stomach ulcers and bleeding and was submitted to the FDA in June 2000. The study showed that patients taking Vioxx had fewer stomach ulcers and bleeding than patients taking naproxen, another NSAID, however, the study also showed a greater number of heart attacks in patients taking Vioxx. The VIGOR study was discussed at a February 2001 Arthritis Advisory Committee and the new safety information regarding all that was known at the time about the potential risk of cardiovascular effects with Vioxx from this

study was added to the labeling for Vioxx in April 2002. Merck then began to conduct longer-term trials to obtain more data on other potential indications of this product. All trials for chronic use were designed to monitor carefully for cardiovascular safety. The serious side effect risks for which Vioxx was ultimately withdrawn from the market voluntarily by Merck were identified when Merck collected new data from a trial called the APPROVe, which stands for Adenomatous Polyp Prevention on VIOXX trial where Vioxx was compared to placebo. The purpose of this new trial was to see if Vioxx 25 mg was effective for a new indication—for preventing the recurrence of colon polyps. This trial was stopped early because there was an increased risk for serious cardiovascular events, such as heart attacks and strokes, first observed after 18 months of continuous treatment with Vioxx compared with placebo.

The bar is not set higher for imported drugs. In fact, the bar is identical to that for FDA-approved drugs. The problem with illegally imported prescription drugs is that we often have no assurance that they have been manufactured, processed and held according to the same requirements and standards as FDA-approved drugs. FDA drug approvals are manufacturer- and product-specific and include many requirements relating to the product, such as manufacturing location, formulation, source and specifications of active ingredients, processing methods, manufacturing controls, packaging location, container/closure system, and appearance (21 CFR 314.50). Frequently, drugs sold outside of the United States are not manufactured or packaged by a firm that has FDA approval for that drug. Moreover, even if the manufacturer has FDA approval for a drug, the version produced for foreign markets may not meet all of the specific requirements of the United States approval, and thus would be considered to be unapproved (section 505 of the Act (21 U.S.C. 355)).

In December 2004, the HHS Drug Importation Task Force Report on Prescription Drug Importation concluded that any safe system of importation would likely produce only modest savings on the national level. The small quantity of available drugs to import would result in little aggregate cost savings. The Task Force included a report with the results from a Department of Commerce study. That study concluded the reduction of research and development of competitive markers for generic medicines, thereby denying consumers in those markets benefits, including lower prices that Americans obtain as result of competition between generic and brand-name drugs. In fact, U.S. consumers would pay, on average, 50 percent more for their generic medications if they bought them abroad.

Question. Mark McClellan has said, “If you’re certain you’re buying approved Canadian drugs from an approved Canadian pharmacy,” he says, “you can have a high level of confidence that that’s a good product.”

If we could figure out a system that makes importing drugs just like walking into a brick and mortar Canadian pharmacy, wouldn’t it be safer than what is occurring today?

Answer. The HHS Drug Importation Task Force Report on Prescription Drug Importation issued in December 2004 outlined measures that would be needed to implement an importation program that provides adequate safeguards and resources to ensure that the imported drugs are safe and effective within the meaning of the Federal Food, Drug, and Cosmetic Act. An importation program that does not take these measures into consideration would frustrate our ability to ensure that the prescription drugs imported for personal use were safe and effective for their labeled uses.

Specifically, the Task Force made a number of significant finding about an importation program. The Task Force determined that first, integrity of the distribution system must be ensured by, among other measures, requiring drug pedigrees with adequate documentation, limiting ports of entry and distribution channels, and allowing commercial importation only from licensed foreign wholesalers to authorized sellers in the United States. The program must exclude personal shipments via the mail and courier services. Indeed, regulating personal importation could be extraordinarily costly, on the order of \$3 billion a year based on estimates of the current volume.

Second, any program must limit importation to those prescription drugs most likely to yield savings—namely high-volume products for which a United States—approved generic is not available—and allow importation only from countries for which we have a high degree of confidence in the comparability of their drug regulatory systems. In the Administration’s view, Canada is the only country from which importation should be considered at this point. Congress should also exclude drugs or classes of drugs that pose increased safety risks in the context of importation, such as controlled substances and drugs that require refrigeration during shipping.

Third, any program must require that imported prescription drugs be dispensed pursuant to a valid U.S. prescription pursuant to advice from a trusted medical professional.

Fourth, measures must be included to ensure that any purchasers of imported drugs are given full and adequate information regarding, among other things, the source of the drugs, and that packaging and labels on imported drugs meet all FDA requirements.

Fifth, any importation program must ensure effective oversight and adequate government resources to protect American consumers.

Sixth, any program must include the ability to use streamlined inspection procedures, and ensure appropriate remedial steps can be taken in the event of adverse events from imported drugs.

Seventh, any program must avoid anti-competitive provisions such as so-called "forced sale" provisions, and other types of price controls.

The Task Force found that such a system would have minimal cost savings.

Question. The FDA claims that more than 10 percent of drugs worldwide are counterfeit.

What is this based on? What is the percentage in the European Union? Canada? Are drugs made in Canada that enter the United States considered counterfeit?

Answer. FDA has not stated that 10 percent of the drugs worldwide are counterfeit. Many sources have attributed FDA with this figure; however, it did not come from FDA. In fact, FDA does not know what the prevalence of counterfeit drugs is globally, in the European Union, EU, or in Canada. Drugs that are made in Canada are not considered counterfeit unless they meet the definition of "counterfeit drug" under 21 U.S.C. 321(g)(2). Rather, virtually all prescription drugs imported into the United States from Canada for personal use violate the Federal Food, Drug, and Cosmetic Act, the Act, because they are unapproved new drugs (section 505 of the Act (21 U.S.C. 355)), labeled incorrectly (sections 502 and 503 of the Act (21 U.S.C. 352 and 353)), dispensed without a valid prescription (section 503(b)(1) of the Act (21 U.S.C. 353(b)), or imported in violation of the Act's "American goods returned" provision (21 U.S.C. § 381(d)(1)). Under the American Goods Returned provision of 801(d)(1), it is illegal for anyone other than the original manufacturer of the drug to import into the United States a prescription drug that was originally manufactured in the United States and sent abroad. Because a consumer is not the manufacturer, they are not permitted to reimport prescription drugs into the United States, even if the drugs were made in the United States. Importing a drug into the United States that does not comply with the labeling and dispensing requirements in the Act and/or is an unapproved new drug is prohibited under section 301(a) and/or (d) of the Act (21 U.S.C. 331(a) and/or (d)).

Question. There have been several recent reports that your agency, along with the Customs and Border Patrol, has increased enforcement efforts to stop prescription drugs from coming into the United States. Did the FDA change its policy?

Answer. FDA's guidance on the personal importation of prescription medicine has not changed. However, we have accommodated CBP's new role in the initial screening of packages containing pharmaceuticals by adjusting the application of our procedures for handling pharmaceutical products shipped through international mail facilities. We anticipate that efficiencies gained as a result of the revised CBP procedures will allow CBP and FDA to screen and process a larger number of packages than in the past.

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

DIETARY SUPPLEMENTS

Question. Most dietary supplements provide great health benefits for many Americans. As you know, I have worked for years to ensure that dietary supplements are safe for the public—I hope that the dietary supplement adverse reporting system is enacted in the near future. Clearly, such a system would increase the workload of the FDA, and Congress would need to do its part and provide extra funding for your agency.

In the meantime, please advise the Subcommittee on the timeline to publish the final rule on Good Manufacturing Practices for dietary supplements, which were mandated by Congress 12 years ago and still have yet to be finalized.

Answer. The proposed rule was published March 13, 2003, and included responses to numerous comments received after publication of the advanced notice of proposed rulemaking in 1997. The comment period for the proposed rule was extended until August 2003. We held public stakeholder meetings on April 29, 2003, in College

Park, MD, and on May 6, 2003, in Oakland, CA. We also held a public meeting, via satellite downlink, on May 9, 2003, with viewing sites at our district and regional offices throughout the country. After the comment period closed, we began the process of analyzing the comments submitted to the proposed rule. The issues raised by the comments are complex, legally and substantively, and in some cases, novel. We have expended significant internal resources on reviewing and preparing responses to the comments received. In addition, we have worked to ensure that the goals of Dietary Supplement Health and Education Act are carried out with careful consideration of the impact on the dietary supplement industry. We are working to complete the rulemaking.

WOMEN'S HEALTH

Question. In late August, Dr. Susan Wood, the Assistant FDA Commissioner for Women's Health and Director for the Office of Women's Health, resigned over the Administration's refusal to issue a final decision on the emergency-contraception (Plan B) application. She said, "I can no longer serve as staff when scientific and clinic evidence, fully evaluated and recommended for approval by professional staff here, has been overruled." This decision was contrary to the recommendations of the FDA's advisory commission and its review staff. I requested a GAO study, released in November, which found that the decision process to deny the application "was unusual." It is my understanding that the FDA is currently considering a revised request to make emergency contraception available over the counter to women, but require a prescription for younger girls.

What is the status of this request, and what is the FDA doing to further all aspects of women's health?

Answer. On May 6, 2004, the FDA issued a "Not Approvable" letter to Barr Laboratories, sponsor of a supplemental New Drug Application proposing to make the currently approved Plan B emergency contraception prescription product available as an over-the-counter, or OTC product. After reviewing the supplemental application, FDA concluded that the application could not be approved at that time because adequate data were not provided to support the conclusion that young adolescent women can safely use Plan B for emergency contraception without the professional supervision of a licensed practitioner and a proposal from the sponsor to change the requested indication to allow for marketing of Plan B as a prescription-only product for women under 16 years of age and a nonprescription product for women 16 years and older was incomplete and inadequate for a full review.

The applicant chose to revise its application, and in a July 2004 resubmission, the applicant requested to market Plan B as prescription-only for women under the age of 16 and OTC for women 16 years of age and older. In addition, they proposed an educational program for healthcare providers, pharmacists, and patients.

On August 26, 2005, FDA issued a letter to Duramed Research, the successor to the Barr Laboratories application, in response to their July resubmission. The response concluded that the available scientific data are sufficient to support the safe and effective use of Plan B as an OTC product for women who are 17 years of age and older. However, the Agency stated that it was unable to reach a decision on the approvability of the application because of unresolved issues that relate to whether a drug may be both prescription and OTC, depending on the age of the patient, how an age based distinction could be enforced, and whether Rx and OTC versions of the same active ingredient may be marketed in a single package.

On the same date that FDA issued this letter to Duramed Research, FDA issued an advance notice of proposed rulemaking. This rulemaking requested comment on whether to initiate a rulemaking to codify its interpretation of section 503(b) of the Food, Drug, and Cosmetic Act regarding when an active ingredient may be simultaneously marketed as both a prescription and OTC drug product. The comment period on this notice closed on November 1, 2005, and FDA is currently evaluating those comments.

With regard to your question on what FDA is doing to further women's health, FDA's Office of Women's Health also known as OWH continues to expand patient protection and empower consumers for better health by providing consumer information and funding research. OWH continues its Take Time to Care Campaign, a multi-faceted campaign that focuses on the dissemination of health education materials for consumers through activities and collaborative partnerships. OWH continues its Menopause and Hormones Education Campaign providing clear and useful information to women about the use of hormones during menopause. OWH continues to develop and distribute numerous consumer information fact-sheets about FDA-regulated products for women and their families. OWH consumer information and publications are available in approximately 20 different languages.

OWH funds research projects related to FDA products and relevant to women's health and sex differences. The office funds research projects at FDA and academic institutions that are of regulatory significance to FDA. OWH partners with other HHS organizations to identify gaps in women's health research and to leverage limited funding. The office participates in national medical, scientific, and health care conferences sharing information with consumers about FDA regulated products and participating in scientific discussions and presentations advancing the science related to sex and gender differences.

OWH enhances patient protection and consumer health by maintaining an extensive and current electronic "contact database" used to inform patient advocacy groups, health professionals, national organizations, and large insurance carriers of innovative products approved by FDA and important safety information related to FDA regulated products.

OWH is working to transform systems and infrastructure to support critical agency operations regarding electronic knowledge/information management for an integrative IT environment across FDA Centers. The office is developing a "SMART" document approach for FDA reviewers to enhance review quality and consistency. OWH has been working on a business case plan to better allow for electronically tracking the inclusion of women and sex-specific analyses in studies submitted to FDA.

ADVISORY COMMITTEES

Question. As you know, Congress required FDA to publish a quarterly report on your efforts to find unconflicted scientists for FDA panels. Your first report, published January 2006, gave some raw numbers (over 200 resumes review for a limited number of slots) but did nothing to document any specific efforts to find unconflicted scientists.

What specific steps other than cursory resume reviews have you taken to find scientists to serve on advisory committees this year that don't have conflicts of interest?

Answer. FDA has instituted a number of additional steps this year to find experts with limited or no conflicts of interest to serve on FDA advisory committees and panels. FDA scientific and technical staff and their managers generally identify and contact experts, inviting them to fill vacancies on advisory committees or panels. In the past year, FDA's Advisory Committee and Management Staff in the Commissioner's Office and committee management staff at the Center levels have briefed FDA scientific and technical staff and their managers on the importance of identifying potential committee nominees with limited or no conflicts of interest. In an effort to help identify potential conflicts at the earliest possible stage, staff and management were also advised to consider, to the extent possible, the types of products likely to be discussed at upcoming committee and panel meetings when interviewing candidates about financial holdings and industry relations.

Panel and committee members themselves also identify possible candidates to serve on advisory committees and panels. Current committee and panel members are therefore advised to consider possible conflicts of interest when recommending candidates for participation.

We anticipate that the efforts described above will result in the need for fewer waivers in the future. Because committee and panel vacancies are often filled well ahead of meetings, it can be difficult to identify the relevant sponsors or competing companies, and therefore potential conflicts of interest, during the nomination stage. Importantly, one of the most critical mechanisms for preventing and addressing conflict of interest issues continues to be the rigorous analysis FDA conducts to identify conflicts of interest once we know the context of a committee or panel meeting, as well as the process, guided by both Federal statutes and regulations, for determining whether conflict of interest waivers are appropriate. As we pursue FDA's mission to protect the public health, we strive to fill committee and panel vacancies with qualified experts who satisfy the committee composition requirements set forth by Federal law. Finding experts who have no or limited conflict of interest remains one of multiple considerations in identifying who will fill a committee or panel vacancy.

Question. On January 23, a joint meeting of the FDA's Nonprescription Drug Advisory Committee and the Endocrinologic and Metabolic Drugs Committee met to discuss GlaxoSmithKline's weight loss drug, Orlistat, going over-the-counter. It was eventually approved 11-3. Seven scientists were granted waivers for that meeting, including two who had direct ties to Glaxo.

Do you think that public's faith in this committee's decision is undermined by the fact that so many scientist required waivers of conflicts of interest? Does your staff

have enough resources to conduct adequate background research on potential advisory committee members to find people without such conflicts?

Answer. We believe that several factors should serve to bolster the public's faith in the advisory committee recommendation described above.

First, the conflict of interest waivers were granted in accordance with Federal law. The waivers approved for the meeting described above were granted in compliance with 18 U.S.C. 208(b)(3), 21 U.S.C. 355(n)(4), and the applicable Office of Government Ethics regulations.

Second, information regarding these waivers and the underlying conflicts of interest was made publicly available before the advisory committee meeting, as required by law. Waiver documents and information regarding the nature and magnitude of the underlying conflicts of interest were posted on FDA's Internet page prior to the meeting.

Third, the voting results of this meeting do not suggest a bias resulting from conflicts of interest. Five of the seven waivers were granted for members with minimal interests in competing companies. If financial bias was present, one might expect that the final vote would have been directed against the product under discussion. Instead, a significant majority of the members voted in support of the product. Moreover, as stated in the waiver documents posted online, the two additional waivers were granted to scientists receiving minimal compensation that arguably did not constitute "financial interests" under 18 U.S.C. 208(a). FDA proceeded with waivers for these individuals, however, out of an abundance of caution.

To identify potential conflicts at the earliest possible stage, staff and management are advised to consider, to the extent possible, the types of products likely to be discussed at upcoming committee and panel meetings when interviewing candidates about financial holdings and industry relations. Panel and committee members themselves also identify possible candidates to serve on advisory committees and panels. Current committee and panel members are therefore advised to consider possible conflicts of interest when recommending candidates for participation. We believe these steps are sufficient and adequately resourced.

METHYLMERCURY

Question. It is well known that mercury occurs naturally in the environment and can also be released into the air through pollution. It is well established that exposure to elevated levels of mercury during fetal development can have adverse effects on the developing brain and nervous system that can lead to delayed speech and motor development. For these public health reasons, what else can be done to reduce the amount of mercury in seafood?

Answer. There is no technical process that can remove methylmercury from fish. Therefore, FDA and the Environmental Protection Agency (EPA) have implemented a comprehensive public education campaign through health professionals and the media to inform high-risk populations, including women who may become pregnant, pregnant women, nursing mothers and the parents of young children, about mercury in seafood. The purpose of this campaign is to inform these high-risk consumers that they should avoid or restrict their consumption of certain kinds of fish, while emphasizing the importance of fish and shellfish as part of a healthy diet.

The public education campaign includes an extensive outreach effort to over 9,000 print and electronic media outlets, including magazines about pregnancy and young children. Information has also been sent to members of over 50 organizations of healthcare providers to women and children, such as the American Academy of Pediatrics, the American Academy of Family Physicians, the American College of Obstetricians and Gynecologists, and the American College of Nurse Midwives, directors of the Women, Infants, and Children programs, as well as all local health departments.

In addition, brochures about the methylmercury advisory have been sent to all practicing pediatricians, obstetricians, gynecologists, nurse practitioners, and nurse midwives throughout the country for distribution in their offices. The brochures are accompanied by a letter to the health professional that emphasizes the health benefits of fish. The advisory is also being distributed through exhibits at medical and public health professional organization meetings.

To date, FDA and EPA have distributed over four million brochures. The brochures are currently available in English and Spanish, and will soon be available in Korean, Cambodian, Chinese, Vietnamese, Hmong, and Portuguese. This information is also available on our Web site for use by States, food facilities, health care professionals, and consumer groups.

FDA and EPA will continue to review these recommendations and make adjustments, as needed, so that consumers have access to clear, sound dietary informa-

tion. We recognize that the marketplace often has multiple, and at times confusing or contradictory, messages. FDA will continue to provide a clear channel for public health information concerning methylmercury and other foodborne contaminants.

To reiterate FDA's position, consumers should continue to eat a diet that follows the advice given in the 2005 Dietary Guidelines, including eating a variety of seafood. It is useful to note that data from the National Health and Nutrition Examination Survey, operated by the Centers for Disease Control and Prevention, that measures levels of methylmercury in U.S. women of childbearing age and young children through 5 years of age reveal that the overwhelming majority of both women of childbearing age and young children are exposed to methylmercury at very low levels.

The next phase of our risk management process for methylmercury involves a risk analysis that is examining the likelihood of adverse effects through the range of exposures being experienced by U.S. consumers. This project is also examining the likelihood of health and nutritional benefits from eating fish at various levels of consumption.

Question. You recently met with Dr. David Acheson, Director of Food Safety, regarding the adequacy of the FDA's mercury advisory. Dr. Acheson said that the advisory is geared toward childbearing women and young children and the information is disseminated through healthcare providers. At present levels of mercury in canned light tuna, a child would exceed the recommended maximum level of mercury consumption by eating as few as two sandwiches a week that contain tuna.

What steps can the FDA take to better educate consumers about avoiding excessive mercury intake?

Answer. FDA and the Environmental Protection Agency, also known as the EPA, have implemented a comprehensive public education campaign through health professionals and the media. The campaign is intended to inform high-risk populations. These include women who may become pregnant, pregnant women, nursing mothers and the parents of young children, about mercury in seafood. The purpose of this campaign is to inform these high-risk consumers that they should avoid or restrict their consumption of certain kinds of fish, while emphasizing the importance of fish and shellfish as part of a healthy diet.

The public education campaign includes an extensive outreach effort to over 9,000 print and electronic media outlets, including magazines about pregnancy and young children. Information has also been sent to members of over 50 organizations of healthcare providers to women and children, such as the American Academy of Pediatrics, the American Academy of Family Physicians, the American College of Obstetricians and Gynecologists, and the American College of Nurse-Midwives, directors of the Women, Infants, and Children programs, as well as all local health departments.

In addition, brochures about the methylmercury advisory have been sent to all practicing pediatricians, obstetricians, gynecologists, nurse practitioners, and nurse midwives throughout the country for distribution in their offices. The brochures are accompanied by a letter to the health professional that emphasizes the health benefits of fish. The advisory is also being distributed through exhibits at medical and public health professional organization meetings.

To date, FDA and EPA have distributed over four million brochures. The brochures are currently available in English and Spanish, and will soon be available in Korean, Cambodian, Chinese, Vietnamese, Hmong, and Portuguese. This information is also available on our Web site for use by States, food facilities, health care professionals, and consumer groups.

FDA and EPA will continue to review these recommendations and make necessary adjustments to ensure consumers have access to clear, sound dietary information. We recognize that the marketplace often has multiple, and at times confusing or contradictory, messages. FDA will continue to provide a clear channel for public health information concerning methylmercury and other foodborne contaminants.

To reiterate FDA's position, consumers should continue to eat a diet that follows the advice given in the 2005 Dietary Guidelines, including eating a variety of seafood. It is useful to note that data from the National Health and Nutrition Examination Survey, operated by the Centers for Disease Control and Prevention, that measures levels of methylmercury in U.S. women of childbearing age and young children through 5 years of age reveal that the overwhelming majority of both women of childbearing age and young children are exposed to methylmercury at very low levels.

Question. The FDA recently issued a final rule on warning label requirements for prescription drugs. In the proposed rule, which was issued in December of 2000, the FDA stated that the rule would NOT preempt state law. Then, in the final rule, the agency asserts that the rule should be interpreted to preempt state law and state tort liability.

Given that the FDA provided no notice of its intention to preempt state law, how did the FDA comply with the notification and consultation requirements mandated by both the Administrative Procedures Act and an existing Executive Order?

Answer. The Administrative Procedure Act requires the Agency to address the comments it receives in response to proposed rules. The discussion you reference in the preamble to the final rule regarding Federal preemption was written in response to the comments received and merely restates the Agency's longstanding position as articulated in amicus briefs filed in court by the Department of Justice, or DOJ, in cases regarding Federal preemption and drug labeling. These product liability cases involved state law challenges to FDA approved labeling. DOJ argued on behalf of FDA that such law suits are preempted by the Federal Food, Drug, and Cosmetic Act when State requirements cause drug products to be misbranded under Federal law.

Next, you correctly reference the preamble to the proposed rule's statement that it was not intended to preempt state actions. Because the rule itself is about the labeling of prescription drugs and is not a rule regarding preemption, and because the codified language did not expressly propose to preempt state law, FDA included the statement you reference in the proposed rule. However, FDA received comments about the product liability implications of the proposed rule and in responding to those comments, FDA mentioned its view of preemption law as it relates to the Physician Labeling Rule. In fact, the rule itself does not create new preemption law in any way; FDA was simply stating in the preamble what it believes the law already is with regard to implied conflict preemption. In addition, implied conflict preemption works to preempt state law when ever conflict with Federal law arises. The agency need not state in a proposed rule that implied preemption might arise for it to actually do so.

With regard to the Executive Order relating to Federalism, although the preamble to the final rule merely stated the agency's view of current implied conflict preemption law and is not part of the codified portion of the rule, FDA consulted with a variety of State officials and representative organizations that represent State officials and governments on its proposed course of action before the final rule was published. FDA considered their input before proceeding.

Question. The FDA had a long-standing policy of allowing States to implement additional safety requirements that would compliment FDA's rules and regulations. Why did the FDA recently stray from the long-standing policy and assert that any differing state law or requirement should be extinguished in favor of the Federal standards, especially in light of new evidence showing some FDA-approved drugs and medical devices are dangerous?

Answer. All drug products have risks and their FDA-approved labeling is designed to reflect the known risks at any given time. Companies are put in the impossible situation of complying with conflicting Federal and state law when Federal law demands they use approved drug labeling and state law requires different warnings. The preamble language represents FDA's view of preemption law and does not abrogate the State's ability to implement safety requirements. States can do so as long as they do not attempt to impose requirements that conflict with Federal law nor frustrate the purposes of Federal law. In addition, the preamble language reflects FDA's long standing views about Federal preemption law and does not reflect a change in FDA policy.

Question. Unelected Federal agencies like the FDA cannot decide, on their own, to extinguish an entire area of state law without congressional authority. Given that Congress never gave the FDA the authority to wipe out numerous state safety laws and requirements, how does the agency find the authority to assert this position?

Answer. FDA did not decide to extinguish an entire area of state law without congressional authority. The six examples in the preamble describe the types of instances where FDA believes that under the Supremacy Clause of the U.S. Constitution and relevant case law, Federal law trumps state law. For instance, state law can not require a warning that would misbrand the product under the Federal Food, Drug, and Cosmetic Act. Similarly, FDA is the expert agency charged by Congress in evaluating the safety and efficacy of drug products, and implied conflict preemption would arise if a State allowed a product liability suit for failing to warn about a specific risk that FDA excluded from the approved label. Companies could be held

liable under state law where state requirements neither conflict with Federal requirements nor frustrate Federal purposes.

Question. The final rule makes clear the agency's position that even if a drug company failed to warn doctors about a drug's known potential dangers—but the warning label was approved by the FDA—the company would be immune from liability no matter how many patients are injured or killed. In those situations, why shouldn't States be allowed to protect their own citizens and allow consumers to hold these drug companies accountable?

Answer. All drug products carry risk. With regard to safety, FDA attempts to approve drugs that have favorable risk benefit balances, and to approve labeling that accurately reflects the known risks about the product. It is unfortunate that people are injured and killed by drug products, but FDA believes that Federal law mandates what warnings are appropriate in the form of approved drug labeling, and that state law requiring different warnings is trumped by Federal law under the doctrine of implied conflict preemption.

ADDITIONAL SUBMITTED STATEMENT

Senator BENNETT. The subcommittee has received a statement from the Advanced Medical Technology Association which will be inserted in the record at this point.

[The statement follows:]

PREPARED STATEMENT OF THE ADVANCED MEDICAL TECHNOLOGY ASSOCIATION

AdvaMed is pleased to provide this testimony on behalf of our member companies and the patients and health care systems we serve around the world. AdvaMed is the largest medical technology trade association in the world, representing more than 1,300 medical device, diagnostic products and health information systems manufacturers of all sizes. AdvaMed's members manufacture nearly 90 percent of the \$86 billion of health care technology products purchased annually in the United States, and more than 50 percent of the \$220 billion purchased annually around the world. AdvaMed members range from the largest to the smallest medical technology innovators and companies and directly employ about 350,000 workers in the United States. More than 70 percent of our members have less than \$30 million in domestic sales annually.

AdvaMed supports the President's fiscal year 2007 budget request of \$229,334,000 for the Food and Drug Administration's (FDA's) Center for Devices and Radiological Health (CDRH). This inflationary increase amount satisfies the fiscal year 2007 requirements of the Medical Device User Fee and Modernization Act (MDUFMA—Public Law 107-250) and the Medical Device User Fee and Stabilization Act (MDUFSA—Public Law 109-43) and is crucial to ensure patients have timely access to lifesaving and life-enhancing products.

Medical Device User Fees

The increasing number and complexity of medical device submissions have overwhelmed CDRH over the last decade. When MDUFMA was crafted, review times for breakthrough products often exceeded over 400 days, despite a statutory ceiling of 180 days. To address these chronic delays, Congress passed MDUFMA in October of 2002 to supplement FDA's resources and expertise and reduce review times for medical technologies. MDUFMA creates a predictable and adequate funding base for CDRH through a combination of industry-paid user fees and an increase in Congressional funding for the agency. Congress also passed MDUFSA last year to ensure the continuance of this critical program.

Medical technology companies have already paid over \$80 million in user fees and will add more than \$150 million to CDRH resources during the first 5 years of the historic MDUFMA agreement. Although the additional appropriations did not materialize in the first 2 budget years of the MDUFMA agreement, Congress provided the nearly \$26 million requested by the President for fiscal year 2005 and the President's inflationary requested amount for fiscal year 2006. This, along with the fiscal year 2007 request for an inflationary increase, maintains the MDUFMA program.

CDRH must be funded adequately to ensure the goals of MDUFMA are met, maintain the United States' position in the rapidly advancing field of medical technology, and ensure patients' timely access to needed medical breakthroughs. AdvaMed requests that the fiscal year 2006 Agriculture Appropriations bill fully fund CDRH at \$229,334,000 to accomplish these important goals.

Additional Fees and Issues

AdvaMed notes with interest that the President's budget calls for collecting some \$22 million for re-inspection fees. We are interested to learn more about the nature of these fees and to which services currently provided by the FDA they will apply. As was discussed last year during crafting of MDUFSA, we are still working with the FDA to learn how the current device user fees are used and generally have concerns about additional fees being applied without better understanding of their use and reflection of costs for providing the intended services. AdvaMed believes any additional fees must be additive to the baseline and must be associated with clearly identified increased performance to benefit the fee payer above and beyond current performance.

Additionally, AdvaMed is concerned that, as in years past, attempts will be made in the fiscal year 2007 appropriations process to alter FDA policy and procedures related to the regulation of new and existing devices. AdvaMed generally opposes such attempts to alter fundamental FDA regulatory policy for medical devices on appropriations bills. We stand ready to offer our expertise on such matters should the need arise in the coming months.

Background on the Medical Device User Fee Program

America is on the cusp of an unprecedented revolution in medical technology driven by major private and public investments in scientific research and computer technology. Congress has also made a multi-billion dollar commitment to double medical research at NIH and unravel the human genome. Medical technology companies also doubled research and development spending in the decade of the 90's.

The vibrant medical technology sector has driven employment gains and a strong balance of trade much to the benefit of the American patient and economy over the last several years. At the same time, the growing number and complexity of new medical devices throughout the last decade, coupled with a drop in the absolute number of reviewers at CDRH has resulted in severe budget strain and increasing delays in approval of new medical technologies for patients.

Prior to passage of MDUFMA, CDRH faced increasing challenges as a result of dwindling resources and accelerating innovation. Staff levels had dropped by 8 percent between 1995 and 2001. By 2001, the average total review time for premarket approval applications had risen to 411 days, more than twice the statutory review time. An FDA science panel warned at the time that increasingly rapid advances in technology "threaten to overwhelm" CDRH's limited resources.

On October 26, 2002, President Bush signed MDUFMA, which was unanimously passed by Congress, into law to give CDRH additional resources and expertise to help provide timely patient access to new medical technologies. It established an industry-funded user fee program to provide up to \$35 million each year to help the agency meet rigorous new performance goals.

Key regulatory reforms in MDUFMA are designed to:

- Eliminate bureaucratic delays in review of combination products by establishing a new office to oversee these technologies
- Authorize FDA to accredit third-party inspectors to audit medical technology companies with a good track record of compliance;
- Encourage timely, thorough premarket reviews by codifying the PMA "modular review" program and extending the third-party review program for 510(k)s;
- Permit paperless device labeling and electronic facility registration.
- Strengthen FDA regulation of reprocessed disposable devices.

From bioengineered organs and implantable artificial hearts to gene-based diagnostic tests and molecular imaging systems, America's medical technology companies are developing thousands of promising new tests and treatments. AdvaMed believes full implementation of MDUFMA will help ensure these advances reach the millions of patients who need them.

The user fee provisions in the law set fees for premarket approval applications, supplements and 510(k) submissions. Under the original law, these fees, combined with funds from increased appropriations, will provide FDA's device program with more than \$225 million in additional resources over the 5 years of the program. A letter agreement accompanying the bill sets review performance goals for the agency.

To assure that these user fees would have an additive effect on the CDRH budget, MDUFMA requires CDRH receive a \$15 million appropriations increase in each of the first 3 years of the program (fiscal year 2003, fiscal year 2004 and fiscal year 2005) for a total of \$45 million by the end of fiscal year 2005, or the user-fee program terminates in fiscal year 2006. These funds are designed to allow CDRH to upgrade information technology and other infrastructure necessary to carry-out a user-fee program and to meet the performance goals.

MDUFMA passed both houses of Congress on the last day of the regular session in October 2002. Owing to the extremely late timing of MDUFMA passage and a very tight budget climate, MDUFMA funding targets were not met in either of the first 2 years of the MDUFMA agreement. MDUFSA was passed last year to allow the program to continue despite the funding shortages in the early years of the program. MDUFSA also addressed the significant rate of increases in fees paid by industry. As Congress has struggled to provide its funding, industry paid user fees (per submission) that far exceed what was expected by MDUFMA. Increases of 35 percent, 15.7 percent and a projected 20 percent for fiscal year 2006 for individual PMA submissions were troubling to industry, and we appreciate the steps Congress took to limit the rates of increase until the program can be reauthorized in 2007.

To maintain the MDUFMA program and protect investments made by the Agency, American consumers and a leading source of job growth in our economy, we ask Congress to again meet the President's fiscal year 2007 budget request for CDRH.

Conclusion

AdvaMed appreciates the Subcommittee's efforts last year and urges them to continue on this path to fully fund MDUFMA and ready FDA for the coming era of biomedical innovation and patients that await timely access to the coming dramatic breakthroughs in medicine. AdvaMed requests that the fiscal year 2007 Agriculture Appropriations, Rural Development, Food and Drug Administration and Related Agencies bill fully fund CDRH at \$229,334,000 to accomplish these important goals. We have concerns about the inclusion of new fees for the FDA to carry out core mission activities and urge the committee to refrain from altering FDA policy and procedures related to the regulation of new and existing devices in the fiscal year 2007 appropriations process.

AdvaMed thanks the committee for this opportunity to present our views and we look forward to working with you to help prepare FDA for the coming revolution in medical technology.

SUBCOMMITTEE RECESS

Senator BENNETT. Thank you very much.

The subcommittee is recessed.

[Whereupon, at 11:25 a.m., Tuesday, March 14, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2007

THURSDAY, MARCH 30, 2006

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room SD-192, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.
Present: Senators Bennett and Kohl.

DEPARTMENT OF AGRICULTURE

STATEMENTS OF:

KEITH COLLINS, CHIEF ECONOMIST

J.B. PENN, UNDER SECRETARY, FARM AND FOREIGN AGRICULTURAL SERVICES

MARK REY, UNDER SECRETARY, NATURAL RESOURCES AND ENVIRONMENT

ERIC M. BOST, UNDER SECRETARY, FOOD, NUTRITION, AND CONSUMER SERVICES

RICHARD RAYMOND, M.D., UNDER SECRETARY, FOOD SAFETY

CHARLES LAMBERT, ACTING UNDER SECRETARY, MARKETING AND REGULATORY PROGRAMS

OPENING STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. The subcommittee will come to order.

This is the subcommittee's third and final hearing on the administration's budget request for fiscal 2007 for the Department of Agriculture.

And today, we have the following witnesses: Dr. Keith Collins, who is the Chief Economist at USDA; Dr. J.B. Penn, the Under Secretary for Farm and Foreign Agricultural Services; Mr. Mark Rey, the Under Secretary for Natural Resources and Environment; Mr. Eric Bost, the Under Secretary for Food, Nutrition, and Consumer Services; Dr. Richard Raymond, Under Secretary for Food Safety; and Dr. Charles Lambert, Acting Under Secretary for Marketing and Regulatory Programs.

And if Dr. Lambert nods off during the hearing, we will understand and forgive him. He has just gotten off an airplane from Japan. We want to ask you, Dr. Lambert, about what you found when you got over there with the activities.

They are accompanied by Mr. Dennis Kaplan, of the Office of Budget and Program Analysis. And we thank you all for being here this morning.

We are going to focus on the budget for the mission areas that each of you is responsible for, but not limited to those areas, if you have additional information to share with us. This is production, agriculture, trade, conservation, nutrition, food safety, animal and plant health, and marketing—a wide portfolio represented by this group of half dozen under secretaries at the table.

Unfortunately, the Under Secretaries for Rural Development and Research, Education, and Economics could not join us this morning. But we will receive information from them later. The mission areas of the under secretaries before us demonstrate the breadth of the programs offered by USDA.

Now the combined fiscal year 2007 discretionary budget request for the agencies under the jurisdiction of this group of under secretaries is \$11.1 billion. And to compare where we are, discretionary funding provided in fiscal 2006 for these mission areas was approximately \$11.3 billion. So there has been a cut. A real cut, not a Washington cut.

A Washington cut is where you spend more than you did last year, but less than somebody thought you should. A real cut is where you spend less than you did last year, and there is a real cut of \$200 million. And that represents a 2 percent decrease from fiscal 2006 levels.

Now you drill down below that top number, and the fiscal 2007 budget request for Under Secretary Rey is 21 percent below fiscal 2006. For Secretary Raymond, it is 9 percent below fiscal 2006. For Secretary Bost, it is 2 percent on the overall number below 2006. Secretary Penn, 2 percent above 2006. And Acting Secretary Lambert is 11 percent above fiscal 2006.

So while the 2 percent number is enough to get our attention as a whole, you get into the specifics, and you get even closer attention that has to be paid. And I am sure we will discuss that.

Now some will say that the message from this is that it is better to be an acting under secretary than an under secretary.

But I think that is coincidence.

Now, before I turn to Senator Kohl for his remarks, I would like to specifically mention the efforts of the Farm Service Agency, Natural Resources Conservation Service, and the Food and Nutrition Service in the wake of Hurricane Katrina.

The employees of these agencies rescued and fed people in the immediate aftermath, and they are currently helping the region recover from this terrible disaster. And we would be remiss if we did not formally acknowledge their work and the leadership that you gentlemen provided to them in that time of great national distress.

Now, members who are not here are free to submit questions for the record. Senator Kohl and I may have some questions for the record, in addition to the round of questioning.

But again, gentlemen, we welcome you here and thank you for your service.

Senator Kohl.

Senator KOHL. I join Chairman Bennett this morning in welcoming members of this panel who represent nearly all of the agencies within USDA. Your presence shows the diverse missions of the USDA, and this panel is an excellent representative of the many priorities that we must balance—farm support, nutrition, mar-

keting, foreign aid, food safety, conservation. All of those mission areas are represented here today.

American farmers are no strangers to adversity, harsh weather, or unpredictable markets. And the past year or so has led them to again face hard times. Storms have hammered the Gulf State coast. Drought has gripped much of the Nation. Wildfires have raged across prairie lands. Energy costs have cut profit margins, and foreign markets for certain products have been closed.

Around the world, drought continues to devastate Africa. Millions of Americans were displaced because of the hurricanes and are still trying to find their way. Another case of mad cow disease and the impending arrival of avian flu remind us just how at risk we really are.

It is not fortunate, therefore, that the President's budget calls for cuts in nearly all of these areas. It proposes significant cuts to support programs for dairy and other producers. It imposes new fees for farmers and rural families seeking credit. It eliminates many ongoing conservation and research projects. It eliminates a small, but important elderly feeding program. It proposes food safety user fees that have been rejected time and again.

On the other side of the coin, technology and market conditions are giving U.S. producers an important role in helping this Nation move closer to energy independence. However, our central challenge is to help guide these changes so that they benefit everyone and not just a few.

Mr. Chairman, I look forward to working with you to develop an appropriations bill to help support all of USDA's constituencies in what we all know is going to be a challenging year.

Thank you.

Senator BENNETT. Thank you very much.

Let us go in the order in which I introduced the witnesses, which means, Dr. Collins, that we start with you.

STATEMENT OF KEITH COLLINS

Mr. COLLINS. Thank you very much, Mr. Chairman, Mr. Kohl. Thanks for the opportunity to begin this hearing with some brief comments on the general economic environment for U.S. agriculture, which I hope will provide a backdrop for your deliberations on the USDA's budget.

Over the past 2 years, U.S. agriculture has experienced solid growth in both domestic and export demand. We have had record-high cattle, broiler, and milk prices; record-high net farm income in 2004; near record-high again in 2005; and record-high net wealth.

Such accomplishments in agriculture occur only periodically. And when they occur, they provide the opportunity for savings and wealth creation that enables many farmers to maintain their operations during less prosperous times.

Large harvests last fall, adverse weather, higher energy prices, the continued loss of Asian beef markets, the global spread of avian influenza are some of the challenges the farm economy must surmount in 2006. And facing these and other challenges, I would like to highlight several key developments.

First, global and U.S. farm product demand generally remains favorable. The United States and world economies show strong growth, despite this morning's reduced GDP estimate for the fourth quarter, we are looking for an improvement in 2006. U.S. agricultural exports are forecast to be a record-high \$64.5 billion, and U.S. food and industrial product demand is expanding.

Second, most world commodity markets are moving toward better supply and demand balance. The record-high crops of 2004 raised global stock levels and reduced market prices. But this year, we have generally lower world production, higher consumption, and as a result, stocks of major commodities are likely to decline, but they will still remain above the levels of 2 years ago.

A notable exception is soybeans, where with very large South American harvests in prospect we once again will add to our already large supplies.

The U.S. market is showing more of an imbalance than the world market as we face a second consecutive year of higher corn, soybeans, and cotton stocks. Last fall's large harvests are more than offsetting increased corn demand for ethanol and strong soybean and cotton exports to China.

Wheat and rice look a little more robust as poor weather is reducing the 2006 global wheat production prospects, and rice has the tightest global market in over 3 decades. All of this for this year means a mixed picture for U.S. crop prices compared to the across-the-board declines we saw last year.

A third observation is that U.S. livestock and poultry production is now rising fairly rapidly. Meat and poultry production is expected to be up 3 percent this year, led by a 5 percent increase in beef production. As U.S. cattle numbers are increasing, we expect more live cattle imports from Canada.

The large increase in meat supplies is reducing cattle, hog, and broiler prices. With progress in opening foreign beef markets, we expect higher beef exports in 2006, although they will remain well below the pre-BSE levels. Pork continues to benefit with another record-high export year in prospect.

And for poultry, as a result of avian influenza, we have been reducing our export forecast. But at this point, we still expect exports to be slightly above a year ago. Leg quarters, in fact, have become quite a bargain. Prices ranged from 40 to 50 cents a pound late last fall. Last week, they were selling for under 20 cents a pound, which should attract foreign buyer interest.

Milk production is expected to increase a hefty 3 percent for the second year in a row this year, and that will lead to lower prices, Milk Income Loss Contract payments, and a modest increase in price support purchases for nonfat dry milk.

This year's return to trend in many markets means somewhat lower farm cash receipts. Also, Government payments are expected to be down by \$4.5 billion because of lower disaster, tobacco, and marketing loan payments.

Higher interest rates and energy costs are expected to increase farm production expenditures again in 2006. Thus, we have lower revenues and higher costs, that suggests the U.S. farm income in 2006 will drop from the unusually high levels of the last few years to the long-term average level.

PREPARED STATEMENT

Meanwhile, farm land values are expected to keep rising, net worth for farmers is expected to set another record high, and the farm debt-to-asset ratio is expected to drop to the lowest level in over 4 decades.

While the coming year will present more of a financial challenge for many producers, a strong balance sheet, average cash flows, and the resiliency in managerial capacities of America's farmers should help them meet this year's challenges.

Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF KEITH COLLINS

Mr. Chairman and Members of the Subcommittee thank you for the opportunity to discuss the general economic situation in U.S. agriculture as background for the Subcommittee's review of the Department of Agriculture's (USDA) fiscal year 2007 budget submission. I will review the major factors affecting agricultural markets in the coming year and their implications for financial conditions in U.S. agriculture.

U.S. agriculture experienced an extremely strong recovery following the economic slowdown at the start of this decade. With solid growth in domestic and export demand, large crop harvests, and record-high cattle, broiler and milk prices, net farm income reached a record high in 2004. In 2005, net farm income reached the second highest level on record despite a large increase in crop stocks which reduced crop prices; multiple hurricanes that shut down the central marketing infrastructure of the country; sharply higher energy prices that raised production, marketing and processing costs; continued loss of Asian beef markets; and the emergence of global Avian Influenza (AI) concerns. Adverse factors were partially offset by continued strong global demand for food, the ability of the agricultural system to rebound from shocks, a substantial increase in government support spending and continued strong livestock and livestock product markets.

In the year ahead, global economic growth and food demand is expected to remain strong, but markets for major crops will face lower prices from higher stock levels built up from the large production levels the past 2 years. In addition, expansion of livestock and livestock product production following several years of profitable returns will likely reduce market prices somewhat. Higher interest rates and energy costs and continued disruption of markets due to animal diseases and weather are also likely to be factors affecting economic performance. Together, these factors suggest that net cash farm income will drop in 2006. Even with the contraction and more financial stress for some farming operations, the overall farm economy is expected to perform at long-term average levels with farm household income remaining strong and farm net worth continuing to increase.

Global Economic Growth and Farm Product Demand

The U.S. economy grew at 3.5 percent in 2005, down from 2004's 4.2 percent but well above 2003's 2.7 percent. For 2006, U.S. Gross Domestic Product (GDP) growth is expected to be slightly less than last year. The decline in the rate of growth in 2006 from last year is expected to be due to slower growth in consumption, housing, and tight energy markets. Increased tightness in labor markets is likely also to be a factor. As the unemployment rate continues to decline, the lack of unemployed labor resources tends to slow real productivity and output growth.

Foreign economic growth retreated in 2005 from 2004's strong growth rate of 4.0 percent, with most areas slowing, particularly Western Europe. This year, Western Europe is expected to have the strongest growth since 2000, and growth prospects appear good in Canada, Japan, East Asia and Mexico—all important markets for U.S. agriculture. Foreign economic growth is expected to rise to 3.4 percent in 2006, up from 2005's 3.2 percent, which would be the second strongest rate of foreign economic growth since 2000.

With the U.S. economy expected to have another year of steady growth, consumption expenditures on food remain positive, although the rate of growth is likely to decline to near 3.5 percent from the unusually high 5 percent levels in 2004 and 2005. Average growth was less than 2.5 percent during the slowdown in 2001 and 2002. This year, slower growth in consumer spending on food is likely, as consumers face heavier debt loads, higher energy costs, and are less likely to use household assets to finance consumption. Consumer spending, which accounts for two-thirds

of GDP, increased only 1.4 percent in the last quarter of 2005, sharply below the third-quarter, but a rebound is expected in the first quarter of 2006.

U.S. Agricultural Trade

Turning to foreign demand for U.S. agricultural products, our latest quarterly forecast for farm exports in fiscal year 2006, released in February, is a record-high \$64.5 billion, up \$2 billion from 2005's record and unchanged from our last quarterly forecast. Stronger horticultural product, cotton, and beef exports are expected to show the greatest gains, while oilseeds and their products, the largest decline compared with fiscal year 2005. The increase in forecast beef exports assumes that the current suspension in Japanese imports is a temporary divergence from the earlier Japanese policy decision to resume imports. We have no information as to when imports will resume, but for the purposes of making a forecast, we simply assume Japan resumes imports of U.S. beef during the second quarter of 2006.

U.S. agricultural imports are forecast at \$63.5 billion, up \$2 billion from our last forecast, and \$5.8 billion more than in fiscal year 2005. Much of the increase from last year and from our last forecast is due to increased imports of coffee, cocoa, sugar, wine, beer, and fruits. The agricultural trade surplus for fiscal year 2006 is forecast at \$1 billion, down from \$3 billion in our last forecast and \$4.7 billion in fiscal year 2005.

While the agricultural export-weighted value of the dollar appreciated in the second half of 2005, at the start of 2006, it was still over 10 percent below the start of the 2003 level. The current period of strong foreign economic growth and continued effects of the decline in the value of the dollar from several years ago should show up in higher U.S. agricultural exports in the future and a modestly improving trade balance. However, the strong consumption growth in the United States and the consumer desire for horticultural products suggest the trade balance in the future will be much smaller than in the past. USDA's long-run projections issued in February forecast U.S. agricultural exports rising to nearly \$73 billion by fiscal year 2010 and imports of \$70.5 billion, leaving a trade surplus of a little over \$2 billion. By 2015, projected exports equal projected imports.

Crops: Supply, Demand, and Price

The 2004/2005 marketing year began with relatively tight crop supplies, but global production of grains, oilseeds and cotton reached record-highs. As a result, stock levels increased, market prices declined, and farm program costs rose. In 2005/2006, global production was near-record high for most major crops, except for oilseeds production which set another record-high. Global total use this year is expected to be about the same as last year for rice and higher than last year for wheat, coarse grains, oilseeds, and cotton. With generally lower production and rising consumption, global stocks of most major commodities will decline this year but remain above the level of 2 years ago. In the United States, supplies for feed grains, cotton, rice and soybeans are at record highs this year, although not for wheat. Unlike the world market where major crop stocks are expected to decline, the large 2005-crop U.S. production levels are expected to cause an increase in corn, soybean, and cotton stocks this year, while wheat remains about the same and rice declines.

World grain (wheat and coarse grain) consumption this year is expected to exceed last year's record high and slightly exceed reduced world production. This will lead to a drawdown in world grain stocks, with world stocks as a percent of total use not excessive. The picture for oilseeds is quite different. Global oilseed production is forecast to be record high for the 10 consecutive year. And, in the coming year, this increase in production is expected to exceed the increase in consumption, resulting in higher global stocks. For soybeans, global stocks as a percent of use is forecast to exceed the high set in 1986.

For the United States, the 2003/2004 grain and oilseed markets, which featured strong demand and tight supplies, was a major contributor to the record high farm income of the past 2 calendar years. The current market prospects have changed as a result of 2 consecutive years of large production and increasing stock levels.

The U.S. soybean situation reflects the world situation, with U.S. stocks expected to be excessive, rising nearly 400 percent above the level of 2 years ago. This jump reflects our bumper harvest this past fall and strong competition from Brazil. For example, Brazil had record high soybean exports during the October-December 2005 quarter, and a rebound in Brazilian production from last year's drought is expected to boost Brazil's soybean production this spring to 58.5 million tons, up from 53 million last year. Still, U.S. soybean prices this winter have been strong in the face of this prospective stock buildup, reflecting perhaps a risk premium, purchases by index funds, or other factors. For the year as a whole, the average price received for soybeans is expected to average \$5.50 per bushel compared with \$5.74 last mar-

keting year. If the Southern Hemisphere crop and the increase in U.S. stocks materialize as expected, soybean prices will likely drop in the second half of the year and into 2006/2007.

For 2006/2007, last year's record-high soybean yields, pressure to rotate to more soybeans from corn, and high energy costs may cause some shifting of corn to soybeans. We expect an increase in soybean planted area of nearly 2 million acres to 74 million. The increase in planted area, combined with trend yields, would result in production levels near expected demand; consequently, carryover levels would remain about the same. With continued heavy stocks and large expected supplies in South America, weaker prices are expected for soybeans.

The U.S. corn market in 2005/2006 is expected to see another year of increasing carryover with ending stocks 150 percent above 2 years ago. Corn prices have rebounded from the extraordinary lows following the hurricanes when the transportation network was impaired and are expected to average \$1.90 per bushel this year, down from \$2.06 last year. As of the end of February, the average corn loan deficiency payment rate made so far on 9.75 billion bushels of corn (88 percent of the 2005 crop), was \$0.44 per bushel, up sharply from \$0.27 averaged on the 2004 crop. In addition, producers received marketing loan gains averaging \$0.42 per bushel on 569 million bushels of corn.

Another important influence on this year's and future corn and other crop markets is biofuels. While biodiesel production has increased from less than a half million gallons in 1999 to over 70 million in 2005, it remains relatively small, equivalent to 3 percent of soybean oil production. That is about where ethanol production was relative to corn production in 1983. Ethanol production this marketing year is expected to account for 14 percent of U.S. corn production. The USDA baseline, released on February 10, 2006, projects ethanol production will account for 22 percent of corn use by 2010 and drive corn prices to \$2.60 per bushel.

In 2004, ethanol accounted for about 2 percent of motor gasoline use in the United States on a btu basis. Under the Department of Energy's baseline projections for motor gasoline and ethanol use to 2010, gasoline use is expected to grow 1.2 percent per year, and ethanol use at over 15 percent per year. Consequently, ethanol is expected to account for over one-quarter of the increase in motor gasoline use through 2010.

For 2006/2007, with soybean area expected to expand, high corn stocks, and high energy prices, corn planted area is forecast to decline 1.3 million acres to 80.5 million. Less acreage and stronger ethanol use is expected to reduce carryover and raise corn prices \$0.25 per bushel, or 13 percent, over the 2005/2006 expected average farm price.

The 2005/2006 wheat market is in good overall balance, with carryover stocks forecast to be nearly the same as last year and the year before. Farm prices are forecast to average \$3.40 per bushel, the same as in each of the past 2 marketing years. After much of the 2005-crop had been marketed, wheat prices started to rise reflecting reduced 2006-crop prospects due to deteriorating weather conditions in the United States and abroad and a currently tight situation for hard red winter wheat. The last week of February saw the nearby Kansas City wheat futures price reach a 40-month high.

For 2006/2007, wheat acreage, which has been trending down and is now 30 million acres less than 25 years ago, is expected to increase by less than 1 million acres to 58 million due to more winter wheat planted last fall. Fall seedings were up reflecting the better price prospects than other crops and good planting weather in the Corn Belt. Yield prospects for the 2006 crop are clouded by the intense drought in the South in areas west of the Mississippi River. Winter wheat in Texas was rated 89 percent poor or very poor as the end of February and the quality of the wheat crop is also reported to be down sharply in Oklahoma. Wheat yield problems are also expected in the Former Soviet Union, an important grain producer, where planted acreage of winter grains are down and a very harsh winter is likely to result in above average winterkill. These poor starting conditions suggest global wheat production will be down again in 2006/2007. If at this point we use trend yields, U.S. wheat production would be near expected demand and wheat 2006/2007 carryover levels and average farm price would remain about the same as this year.

U.S. cotton production reached an all-time high in 2005/2006, and stocks are expected to rise for the second year in a row to 7 million bales, double the level 2 years ago. The increase is expected despite a forecast of record-high exports of 16.4 million bales, up 2 million from last season. About half of U.S. cotton exports are expected to go to China where domestic use is rising rapidly and production is down from last season. U.S. cotton mill use continues to trend down as textile mill activity continues to move offshore. Mill use this year is forecast at 5.9 million bales, compared with 6.7 million last season. Even with stocks increasing, farm prices of cot-

ton have been running above year-ago levels as the world stock situation is tightening.

For 2006/2007, lower production is expected to support prices as a third consecutive record-high crop is unlikely. With the prospect of continued strong exports, ending stocks will likely decline to more average levels in 2006/2007.

Despite a near-record crop, a sharp increase in exports is moving the U.S. rice market into balance with only a slight rise in stocks expected this year compared with 2 years ago. Rice ending stocks are forecast at 26.5 million cwt., down from carry-in stocks of 37.7 million cwt. Medium grain stocks at 5.25 million cwt are the tightest on record (since 1982/1983—first year of supply and use statistics for rice by class). The global rice market is the major factor contributing to strong exports and steady U.S. farm prices, as global ending stocks are expected to be the lowest since 1982/1983, with the stocks-to-use ratio the lowest since 1974/1975. U.S. average farm-level rice prices are forecast at \$7.80 per cwt. this season compared with \$7.33 last season.

For 2006/2007, a rebound from last fall's reduced yields would raise rice production, but with production costs rising, producers are expected to reduce plantings causing production to decline for the second year in a row. As in 2005/06, total use is expected to outpace production leading to another decline in carryover stocks and higher rice farm prices in 2006/2007.

Under the 2002 Farm Bill, lower prices for major crops trigger increases in counter-cyclical payments and marketing assistance loan benefits, thus increasing farm program costs. Based on current market price projections, counter-cyclical payments could reach \$5.2 billion for the 2005/2006 crops, up from about \$4.3 billion for the 2004/2005 crops and \$0.5 billion for the 2003/2004 crops. Marketing assistance loan benefits (loan deficiency payments, marketing loan gains and certificate exchange gains) are projected to increase from less than \$1 billion for the 2003/2004 crops to \$5.5 billion for the 2004/05 crops to about \$6.1 billion for the 2005/2006 crops. In addition, program crop producers receive nearly \$5.3 billion annually in direct payments.

The 2005/2006 sugar market has been very different from other crops this year as hurricane-reduced production has driven prices up substantially. Since this market is heavily regulated by USDA, the Department has substantially increased import quotas to meet this year's demand and help relieve market tightness. In the current marketing year, sugar imports are forecast to reach 3.1 million tons, up from 2.1 million tons last year and 1.8 million tons 2 years ago.

Fruits, vegetables, nursery and greenhouse products continue to provide good news for U.S. agriculture. They are expected to generate \$49 billion in sales in 2006, similar to 2005, and account for 21 percent of farm cash receipts. Sales of these products are now about equal to the value of sales of program crops. U.S. horticultural exports are forecast at \$16.3 billion and imports at \$28.2 billion, indicating a continuing widening of the sector's traditional trade deficit.

Livestock & Livestock Products: Production, Demand and Price

Turning to livestock and poultry markets, U.S. meat exports continue to be heavily influenced by animal diseases. Although we expect rising beef exports in 2006 as trade with Japan eventually resumes, beef exports are still expected to be only about 40 percent of the level of 2003. Our current forecast assumes shipments to Japan resume in the second quarter and does not include any exports to South Korea. We expect the Korean market to open soon and at that time we will incorporate exports to South Korea into our forecasts. With continuing limitations on beef exports, pork exports are forecast to be 4 percent higher than 2005's record high. Lower broiler prices this year would normally help increase exports. However, in January, the forecast of the rate of growth in poultry exports was lowered to a 4 percent increase, half the rate of our prior estimate and down from last year's 9 percent increase, due to reduced consumption in some countries due to AI concerns. In recent weeks, AI has been found in Europe and other areas, suggesting USDA's poultry export forecast could go lower in the months ahead.

While animal disease issues are surrounding meat and poultry export prospects, U.S. production of meat and poultry is expected to be record-high in 2006, leading to record-high U.S. per capita meat and poultry consumption. With a 3 percent increase in U.S. meat and poultry production in 2006, a mixed export picture, and some slowing in the growth of overall consumer expenditures, lower live animal, meat and poultry prices are expected in 2006.

Even though several countries continued to block imports of U.S. beef, U.S. livestock markets were very strong in 2005. The index of prices received for meat animals was an all-time high, 4 percent above 2004 and 17 percent above 2003. Although U.S. cattle numbers increased for the first time in 9 years in 2005, cattle

slaughter continued to drop. For 2006, the situation will change. First, the U.S. cattle inventory on January 1, 2006 was up 2 percent over last year, indicating that producers are now moving well into the expansion phase of the cattle cycle. Second, live cattle imports from Canada will be up in 2005. Third, higher carcass weights are expected. And lastly, drought conditions in Texas and Oklahoma are causing some producers to market additional animals and to place cattle in feedlots sooner. Consequently, cattle slaughter and beef production are expected to increase a strong 5 percent in 2006. Despite the increase in output, choice fed cattle prices are expected to decline only about 2 percent to about \$85 per cwt., and retail beef prices are expected to be down about 3–4 percent.

Despite sustained profitability in hog production, hog producers have been cautious about expanding the past few years. Still, with back-to-back years of good returns, we expect hog slaughter and pork production to be up about 3 percent in 2006 following a modest increase of 0.8 percent in 2005. Hog prices are expected to average \$44 per cwt. in 2005, down about 13 percent from last year, but still stronger than during the 1998 to 2003 period.

Broiler production is expected to again be record high in 2006. A nearly 4 percent increase in production in 2005 was driven by record-high broiler prices in 2004 and low feed prices. Although broiler prices fell about 5 percent in 2005, they remained fairly strong and with favorable feed costs, broiler production is expected to be about 2 percent higher in 2006. Wholesale broiler prices are expected to average 67 cents per pound, down from 70.8 cents last year. However, this forecast was made prior to the finding of AI in Europe and the current acceleration in its spread. As AI has become more widespread, world poultry trade has slowed, which is now adversely affecting U.S. poultry exports and broiler prices. In late February, prices of leg quarters, the principal U.S. broiler export product, had fallen to the low 20-cents-per-pound range, after reaching the high 40-cents-per-pound range in late fall.

Milk, like meat and poultry, is coming off 2 years of strong prices. Widespread forage problems and reduced rBST are largely behind producers now, and following record and near record milk prices in 2004 and 2005, milk production is accelerating. U.S. milk production in January 2006 was up an extremely strong 5 percent over January 2005. In 2004, milk production was flat; in 2005, it rose 3.3 percent; and in 2006, it is forecast to be up nearly 3 percent despite declining prices. Increased milk production this year is expected to exceed the trend growth in dairy product demand, consequently, the all-milk price is forecast to average \$13.45 per cwt. in 2006, down 10 percent from 2005. Payments were triggered under the newly reauthorized Milk Income Loss Contract Program beginning in December 2005, following essentially no payments from the second quarter of 2004 through the third quarter of 2005. The payment rate for March will be \$0.41 per cwt. the highest rate since March 2004. Cheese prices have recently declined to near support levels and price support purchases of nonfat dry milk and cheese are likely during 2006. There were no purchases of dairy products under the milk price support program in 2005.

Farm Income and Government Payments

In 2004, net farm cash income reached nearly \$86 billion, up from the previous record of \$72 billion in 2003. Declining crop prices and increasing production expenses caused net cash farm income to decline to \$83 billion in 2005. In 2006, the farm economy is pulling back from the strong crop prices and production levels in 2003 and 2004 and the record livestock and milk prices of 2004 and 2005. With higher crop stocks, reduced crop prices, and a modest decline in livestock sector receipts, the value of 2006 farm marketings is expected to decline about \$7 billion from the last year's near record \$239 billion, with two-thirds of the decline in crops. With further increases in production expenses and lower government payments, net cash farm income is forecast to fall to \$65 billion in 2006, or about equal to the previous 10-year average.

In 2005, government payments to producers were a record high \$23 billion, up from \$13 billion in 2004. In 2005, increased marketing loan costs aggravated by the marketing system disruption caused by the hurricanes, increased counter-cyclical payments, ad hoc disaster assistance, and tobacco program buyout payments all contributed to higher government payments. Payments to farmers are expected to decline by \$4.5 billion in 2006 due to lower ad hoc disaster payments, marketing assistance loan outlays, and tobacco buyout payments.

Cash production expenses are expected to rise 4 percent in 2006 following increases of 6 percent in 2005 and 5 percent in 2004. Energy-related input (fertilizer, lime, fuels, oils, and electricity) and interest expenses increased by \$6.5 billion in 2005 and are expected to rise by over \$4 billion or 10 percent in 2006. For 2006, the Department of Energy projects that diesel and natural gas will cost another 5 percent more on top of the increases of around 35 percent that these fuels saw in

2005. Corn, a heavy user of energy for fertilizer, irrigation and grain drying, can be used to illustrate the impact of higher energy costs on crop returns. For 2006, energy is expected to add about 5 cents to national average corn operating costs compared with a year ago and 23 cents more than 2 years ago. These rising costs will reduce farm income and have some effect on crop acreage and production in 2006. This forecast increase in energy expenses assumes producers will not alter their production methods to reduce energy use and lower costs, and of course, many will do so.

Net farm income is expected to decline for all major types of crop and livestock farms and in all production regions. Farm household income is also expected to decline for the first time in 7 years, but at over \$80,300, would still be 20 percent higher than in 2003 and well above the average of all U.S. households.

Despite the drop in income and the increase in interest rates, we project that farm real estate values will rise 6.5 percent in 2006, down slightly from the 7 percent gain in 2005. Another land value increase would continue the recent strong improvement in the farm sector balance sheet. The ratio of real estate value to net cash farm income, a concept similar to a price-to-earnings ratio, is forecast to spike up in 2006 to the highest level since the early 1980s. If that ratio were to stay high over the next few years, it would suggest the increase in farmland values may not be sustainable. For the last 3 years in a row, farm net worth has gone up by an average of nearly \$95 billion per year, which is more than the increase in farm income each year and much more than the \$6 billion annual increase in farm debt. That is expected to be true again in 2006. Farm net worth, or equity is now a record high at \$1.4 trillion and the debt-to-asset ratio at the end of 2006 is forecast at 13.1 percent, the lowest in 45 years.

A return to average national farm income, lower enterprise and regional farm income, lower cash margins, and an increase in farm debt do not indicate an impending financial crisis in U.S. agriculture. Yet, they do suggest there is likely to be greater financial stress for an increasing number of producers. That stress is likely to show up in tighter credit standards, delayed loan repayments and loan extensions, and more demand for USDA credit guarantees. The coming year will present more of a financial challenge for U.S. agriculture than in recent years. In addition, agriculture will have to contend with questions over the effect of rising interest rates on the durability of the U.S. economic recovery, the value of the dollar, issues raised by the Federal budget deficit, trade negotiations, bird flu, BSE, oil prices, and terrorism. Producers will likely need to draw more on their resiliency and managerial capabilities in 2006 than during in the past couple of years of abnormally high farm income.

That completes my comments and thank you.

Farm Economic Indicators

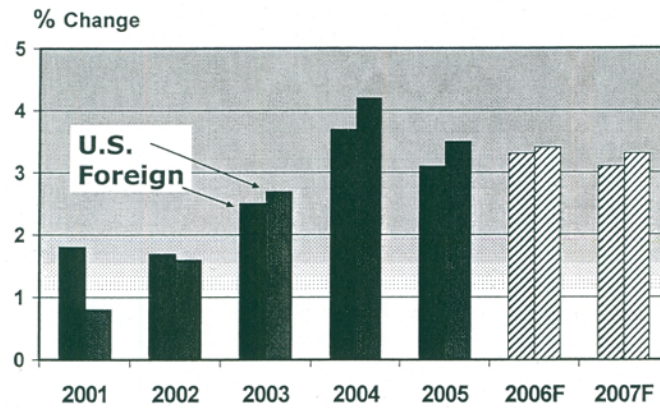
Commodity Prices 1/	Unit	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06F
Wheat	\$/bu	2.48	2.62	2.78	3.56	3.40	3.40	3.40
Corn	\$/bu	1.82	1.85	1.97	2.32	2.42	2.06	1.90
Soybeans	\$/bu	4.63	4.54	4.38	5.53	7.34	5.74	5.50
Rice	\$/cwt	5.93	5.61	4.25	4.49	8.08	7.33	7.80
Cotton	cents/lb	45.00	49.8	29.8	44.5	61.8	41.6	46.9 2/
		2000	2001	2002	2003	2004	2005	2006F
Hogs	\$/cwt	44.70	45.81	34.92	39.45	52.51	50.05	42-45
Steers	\$/cwt	69.65	72.71	67.04	84.69	84.75	87.28	83-88
Broilers	cents/lb	56.2	59.1	55.6	62.0	74.1	70.8	65-69
Milk	\$/cwt	12.40	15.04	12.18	12.55	16.05	15.15	13.10-13.80
Gasoline	\$/gallon	1.53	1.47	1.39	1.60	1.89	2.31	2.50
Diesel	\$/gallon	1.49	1.40	1.32	1.50	1.81	2.41	2.51
Natural gas (w/ld)	\$/K cu. ft.	3.70	4.01	2.95	4.89	5.50	7.45	7.93
Electricity	\$/kwh	8.24	8.62	8.45	8.70	8.97	9.45	9.65
Ag. Trade (Bil. \$)	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06F
Total exports	49.1	50.7	52.7	53.3	56.2	62.4	62.4	64.5
Asia	18.5	19.7	20.1	19.4	21.6	24.3	22.5	22.6
Canada	7.0	7.5	8.0	8.6	9.1	9.5	10.4	11.0
Mexico	5.7	6.3	7.3	7.1	7.7	8.4	9.2	9.8
Total imports	37.3	38.9	39.0	41.0	45.7	52.7	57.7	63.5
Farm Income (Bil. \$)	1999	2000	2001	2002	2003	2004	2005	2006F
Cash receipts	187.6	192.0	200.1	195.0	216.6	241.2	239.0	231.7
Gov't payments	21.5	22.9	20.7	11.2	17.2	13.3	23.0	18.5
Gross cash income	224.0	228.6	235.6	221.0	249.5	271.7	279.5	268.2
Cash expenses	166.6	172.1	176.0	171.6	177.9	186.2	196.7	203.5
Net cash income	57.5	56.5	59.5	49.5	71.6	85.5	82.8	64.8

F=forecast.

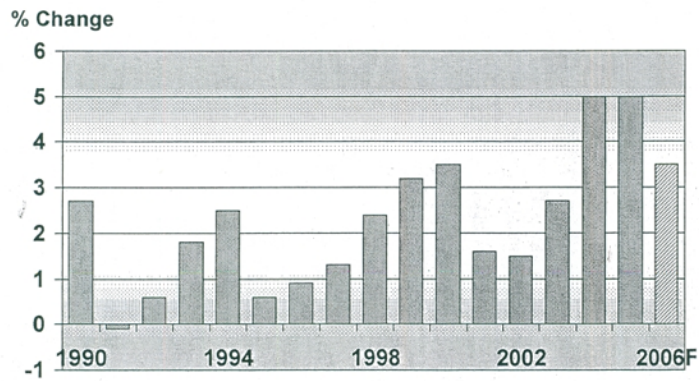
1/ Agricultural commodity price forecasts are from USDA, World Agricultural Supply and Demand Estimates report, February 2006. Crop prices are the midpoint of the forecast range. Energy prices are from Energy Information Administration, Short Term Energy Outlook, February 7, 2006.

2/ August through December 2005 average.

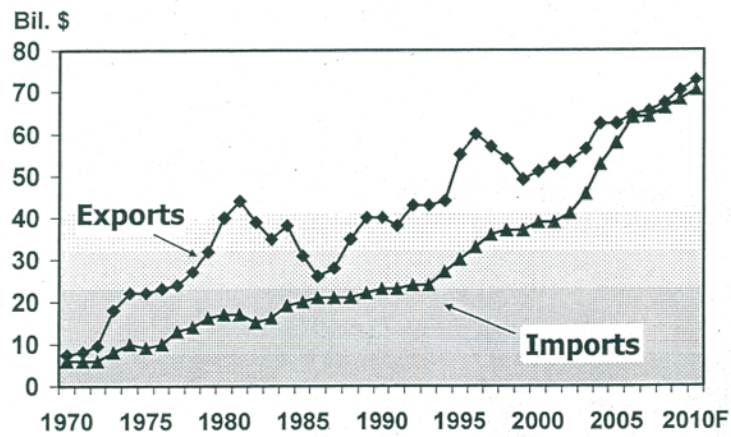
U.S. & Foreign GDP Growth



Real Consumption Spending on Food

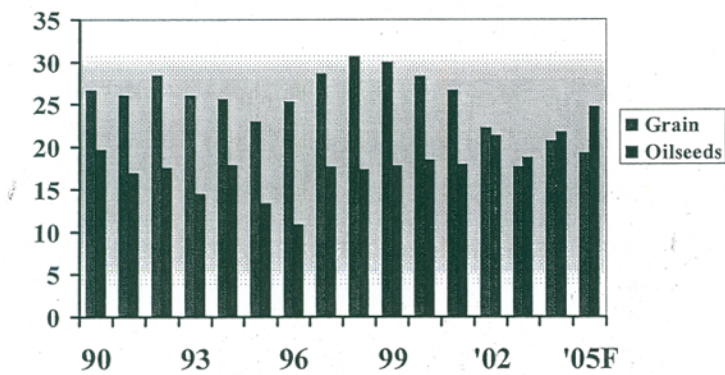


U.S. Agricultural Trade

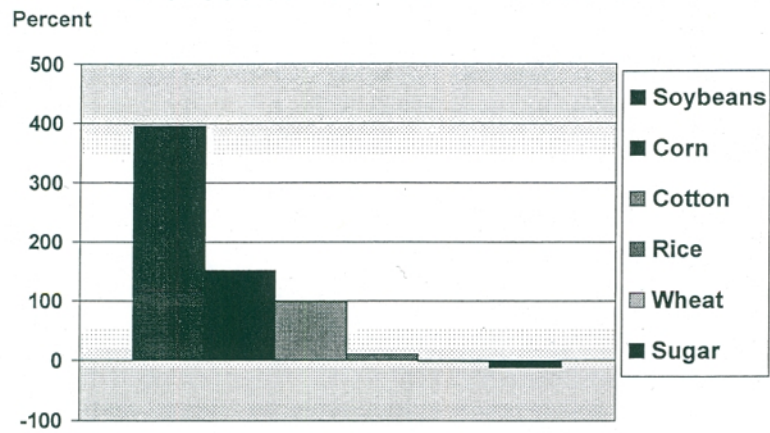


World Grain and Oilseed Stocks

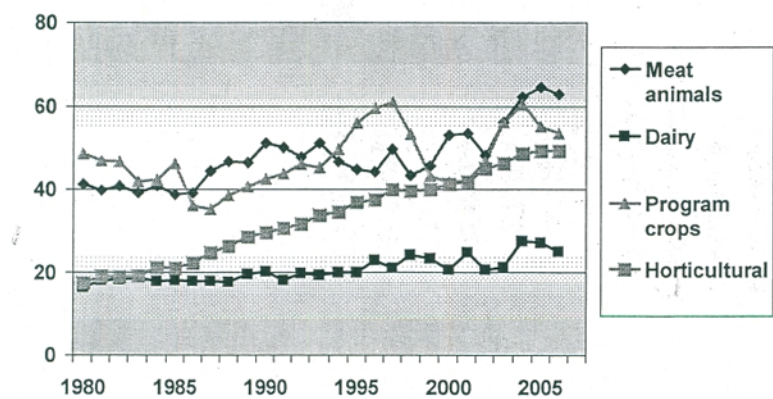
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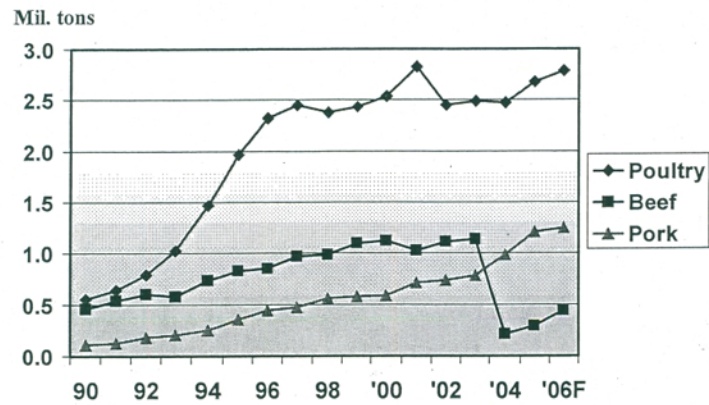
U.S. Crop Carryover Stocks Forecast 2005/06F v. 2003/04



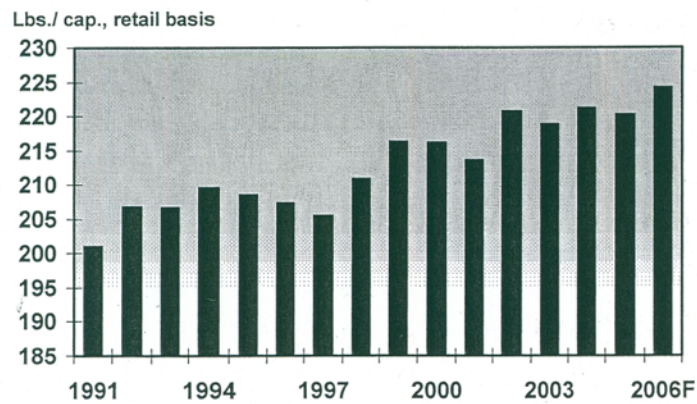
Cash Receipts



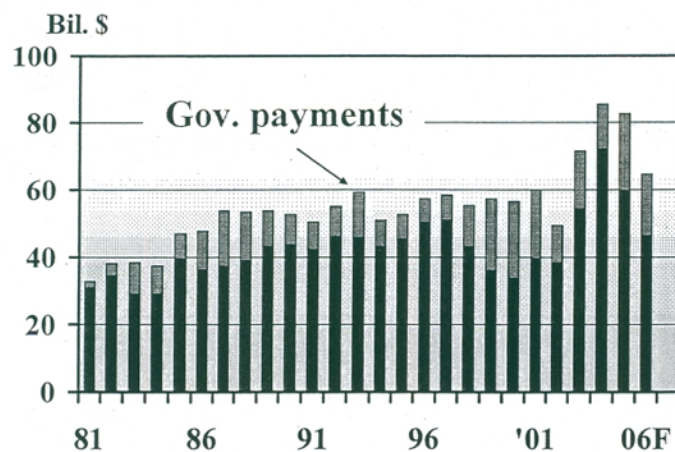
Meat & Poultry Exports



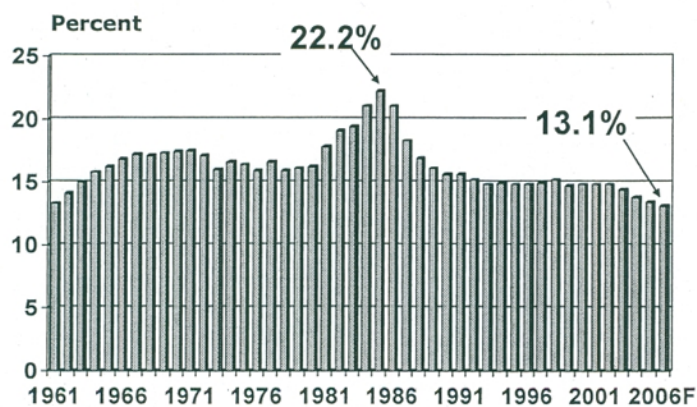
Retail Meat Consumption



U.S. Net Cash Farm Income



Farm Debt-to-Asset Ratio



Senator BENNETT. Thank you very much.
Dr. Penn.

STATEMENT OF J.B. PENN

Mr. PENN. Thank you, Mr. Chairman.

I am pleased to be here with you and Senator Kohl again this year and to present the budget and program proposals for the Farm and Foreign Agricultural Services mission area. As you will recall, this mission area is comprised of the Farm Service Agency, the Risk Management Agency, and the Foreign Agricultural Service.

The budgets we are discussing today provide the resources needed to ensure our continued ability to implement our programs effectively. Although the budget is constrained by the need to reduce the Federal deficit, it meets our priorities and ensures our continued efforts on behalf of America's farmers and ranchers.

I would like to discuss the three agencies and their budgets individually, beginning first with the Farm Service Agency (FSA). FSA is the lead agency, as you know, for delivering farm assistance, and the budget places a priority on maintaining and enhancing our ability to provide efficient, responsive services to all producers.

Recently, FSA has faced a series of program implementation challenges that have required the full commitment of agency resources. Last year and this year, several new disaster programs have been implemented. We have had the tobacco buyout program while continuing administration of the 2002 Farm Bill programs.

The 2007 budget is designed to ensure the agency's continued delivery of its services. The budget provides a total program level for FSA salaries and expenses of nearly \$1.4 billion, a net increase of \$86 million above 2006. Now this requested level will support a ceiling of about 5,250 Federal staff-years and 9,400 non-Federal staff-years, and temporary staffing will remain at the 2006 levels.

FSA also provides a variety of direct loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their operations. And by statute, a substantial portion of the direct loan funds are reserved each year for assistance to beginning, limited resource, and socially disadvantaged farmers and ranchers.

The 2007 budget includes funding for about \$930 million in direct loans and \$2.5 billion in loan guarantees. This level of funding is consistent with the actual program use in 2005, and we believe these proposed loan levels will be sufficient to meet the demand in 2007.

Turning to the Risk Management Agency (RMA), the Federal Crop Insurance Program is another part of the strong safety net that is available to our Nation's agricultural producers. Last year the crop insurance program provided about \$45 billion in protection on over 246 million acres out of the total crop land base of about 325 million acres.

We project that for last year, the total indemnity payments will be about \$3.3 billion. And despite all of the droughts and freezes and floods and hurricanes, that is about the same level of indemnities that we had in 2004. Our current projection shows that for the coming year, we will insure about \$49 billion worth of product.

For salaries and expenses of RMA, the budget provides \$81 million in discretionary spending. That is an increase of \$4.5 million

from the 2006 level, and this net increase includes additional funding for information technology (IT) and increased staff-years to improve our monitoring of the financial health of the insurance companies.

The budget also includes a proposal to implement a participation fee to fund IT modernization and maintenance costs. The fee would be assessed on the insurance companies that participate in the program and that benefit from the subsidies paid by the Federal Government.

Finally, let me turn to the Foreign Agricultural Service (FAS) and our international activities. I am pleased to report that we have made considerable progress in trade expansion activities this past year, but challenges remain.

FAS has been very actively involved in supporting all of the trade negotiations, including the comprehensive World Trade Organization (WTO) negotiations, but also the several bilateral and regional free trade negotiations. It has been very actively involved in reopening the markets closed because of bovine spongiform encephalopathy (BSE) and other animal and plant diseases. And the agency continues to work to expand foreign sales and, at the same time, provide foreign food aid.

The proposed budget provides a program level of \$162 million for 2007. That is an increase of \$11 million above 2006. This funding is proposed to meet higher overseas operating costs in the agency's overseas posts, including increased payments to the Department of State for administrative services that are provided in the embassies in which our personnel are posted.

Funding is also included for FAS's contribution to the Capital Security Cost Sharing Program operated by the State Department. The budget also includes a small increase for trade capacity building. This initiative assists developing countries in adopting policies that meet WTO standards and to adopt regulatory systems that are transparent and science based and modeled after ours.

The budget also includes a projected program level of \$1.3 billion for the Public Law 480 program, and the budget proposes that all of the Public Law 480 funding will be through Title II donations. This reflects our recent experience in which an increasing share of the foreign food assistance has been directed to emergency situations, where such aid is critical to preventing famine and saving lives.

For the McGovern-Dole Food for Education Program, the budget continues funding at the 2006 level.

So, in conclusion, Mr. Chairman, our 2007 budget and program proposals provide the resources we need to continue the important work that these agencies do on behalf of America's farmers and ranchers.

PREPARED STATEMENTS

We certainly appreciate the support for our mission area that we have received from this committee in past years, and we look forward to working with you in the future.

Thank you.

[The statements follow:]

PREPARED STATEMENT OF J.B. PENN

Mr. Chairman and Members of the Committee, I am pleased to appear before you this morning to present the 2007 budget and program proposals for the Farm and Foreign Agriculture Services (FFAS) mission area of the Department of Agriculture (USDA). The FFAS mission area is comprised of three agencies: the Farm Service Agency, Risk Management Agency, and Foreign Agricultural Service.

Statements by the Administrators of the FFAS agencies, which provide details on their budget and program proposals for 2007, have already been submitted to the Committee. My statement will summarize those proposals, after which I will be pleased to respond to any questions you may have.

Mr. Chairman, the FFAS mission area and the programs it carries out are critical for meeting three of the Department's strategic objectives: enhancing the international competitiveness of American agriculture in order to increase export opportunities; enhancing the competitiveness and sustainability of the rural and farm economies; and protecting and enhancing the Nation's natural resource base and environment. By providing the diverse array of programs offered by our agencies—price and income support, farm credit assistance, conservation and environment incentives, risk management tools, and trade expansion and export promotion programs—we are in the forefront of efforts to accomplish the Department's mission of service to American agriculture.

The 2007 President's budget provides the resources needed to ensure continuation of these diverse activities. Although the budget does include proposals for savings in both discretionary and mandatory programs, as part of government-wide efforts to reduce the deficit, it meets our priorities and ensures our continued efforts on behalf of America's agricultural producers.

FARM SERVICE AGENCY

The Farm Service Agency (FSA) is the lead agency for delivering farm assistance. It is the agency that the majority of farmers and ranchers interact with most frequently. Producers rely on FSA to access farm programs such as direct and counter-cyclical payments, commodity marketing assistance loans, loan deficiency payments, farm ownership and operating loans, disaster assistance, and certain conservation programs, such as the Conservation Reserve Program (CRP). Because FSA is the prime delivery agency for most of the major farm assistance programs, the budget places a priority on maintaining and enhancing FSA's ability to provide efficient, responsive services to our producers.

Farm Program Delivery

FSA has faced a series of program implementation challenges that have required the full commitment of agency resources. Last year, FSA implemented the Emergency Hurricane Supplemental Appropriations Act of 2005, which included more than a dozen programs and \$2.9 billion for farmers and ranchers who were affected by drought and other weather-related problems in 2003 and 2004. FSA also implemented an emergency relief program, supported with \$600 million of section 32 funds, for Florida's citrus, nursery, and vegetable growers who were affected by three hurricanes in 2004.

In addition, FSA was required to implement the tobacco buy-out program during 2005, with very little lead time to prepare. Under the program, transition payments of about \$950 million per year are being made to tobacco quota holders and producers, ending all elements of the Federal tobacco price support program effective with the 2005 crop.

Although the emergency supplemental provided some funds to cover administrative costs of delivering disaster assistance, they were not sufficient to meet those costs fully. As a result, FSA had to cut expenses aggressively in all but the most essential areas and was forced to divert IT resources away from planned modernization to provide the resources needed to implement these new programs. In 2006, FSA is again meeting the challenge of delivering disaster assistance to producers affected by hurricanes in the Gulf Coast states.

In the fall of 2005, FSA reduced permanent staffing through the use of buy-out authority to adjust staffing due to workload changes resulting from elimination of the tobacco program and other changes. Although the demands on FSA's resources have tightened and workload and staffing needs have shifted, the FSA office structure has remained stable for several years. FSA now has hundreds of county offices with three or fewer employees that are increasingly expensive to maintain and are hard pressed to provide effective customer service. As you know, the agency terminated its "FSA Tomorrow" plan to close and consolidate county offices, but the need to streamline operations and office structure continues. FSA has asked its State Ex-

ecutive Directors to conduct independent, local-level reviews of the offices and operations in their states. This ongoing effort will follow the guidelines established in the 2006 Agriculture Appropriations Act with respect to public meetings, Congressional notification, and communications with affected producers. This will ensure the most appropriate adjustments are made, consistent with local needs and within the constraints of available resources.

The 2007 budget is designed to ensure the agency's diverse efforts can move forward. It provides a total program level for FSA salaries and expenses of nearly \$1.4 billion, a net increase of \$86 million above 2006. The requested level will support a ceiling of about 5,250 Federal staff years and 9,425 non-Federal staff years. Staff levels have been reallocated among FSA's program activities to reflect the decreased workload associated with the tobacco program and other areas. Permanent Federal staff years will be reduced by 65 and permanent full time non-Federal county staff years will be reduced by 24, while temporary staff years will remain at 2006 levels.

FSA is taking other actions designed to improve their services on behalf of America's producers. Among the most important of these are information technology (IT) improvements, including the adoption of web-based applications that allow farmers to sign up for programs, as well as receive payments, on line. This reduces the paperwork burden significantly and provides for more timely receipt of payments.

Critical to the success of this endeavor is the need to replace farm program delivery software now running on FSA's remaining legacy computer system which is obsolete and incapable of meeting future needs. In order to complete the transition to the modern web-based technology system, the budget proposes \$14 million for a multi-year investment in streamlining farm program delivery processes and software to allow retirement of the legacy system.

Commodity Credit Corporation

Domestic farm commodity price and income support programs are financed through the Commodity Credit Corporation (CCC), a Government corporation for which FSA provides operating personnel. CCC also provides funding for conservation programs, including the CRP and certain programs administered by the Natural Resources Conservation Service. In addition, CCC funds most of the export programs administered by the Foreign Agricultural Service.

In 2005, CCC outlays were relatively high at \$20.2 billion due to recent large crops that have contributed to growing supplies and weakened prices. CCC outlays are now projected to reach \$21.3 billion in 2006 and \$20.2 billion in 2007 under current law, which reflects the recent enactment of the Agricultural Reconciliation Act of 2005.

In light of the continuing high levels of CCC outlays and the continuing budget deficit, the President's budget again includes a number of proposals to reduce the level of farm spending consistent with the government-wide goal of reducing the Federal deficit. These proposals are designed to work within the existing structure of the 2002 Farm Bill and achieve savings over the next 10 years. The proposals, which are spread across the entire agricultural sector, include reducing commodity payments across the board by 5 percent; tightening payment limits; lowering dairy program costs; and reinstituting a 1.2 percent marketing assessment on sugar processors as well as a 3 cent per hundredweight assessment on milk marketings.

These proposals are expected to save \$1.1 billion in 2007 and \$7.7 billion over 10 years. The majority of the savings is achieved through the across-the-board reduction in program payments.

Conservation Programs

The 2002 Farm Bill provided for significant growth in the Department's conservation programs. The CRP, which is funded by CCC and administered by FSA, is the Department's largest conservation/environmental program. The Farm Bill extended CRP enrollment authority through 2007 and increased the enrollment cap by 2.8 million acres to a total of 39.2 million acres.

As of January, CRP enrollment totaled 35.9 million acres. The 2007 budget assumes general signups will be held this year and next to enroll about 2.5 million and 4.9 million acres, respectively. In addition, a major effort is underway beginning this year to re-enroll or extend a large number of CRP contracts that will begin expiring over the 2007–2010 period.

Our current baseline assumptions are that CRP acreage will increase gradually to 39.2 million acres by 2008 and remain at that level through 2016.

FARM LOAN PROGRAMS

FSA plays a critical role for our Nation's agricultural producers by providing a variety of direct loans and loan guarantees to farm families who would otherwise

be unable to obtain the credit they need to continue their farming operations. By law, a substantial portion of the direct loan funds are reserved each year for assistance to beginning, limited resource, and socially disadvantaged farmers and ranchers. For 2007, 70 percent of direct farm ownership loans are reserved for beginning farmers and 20 percent are reserved for socially disadvantaged borrowers, who may also be beginning farmers.

The 2007 budget includes funding for about \$930 million in direct loans and \$2.5 billion in guarantees. This level of funding is consistent with actual program use in 2005, and we believe these proposed loan levels will be sufficient to meet demand in 2007.

The 2007 budget provides funding of \$4 million for the Indian Land Acquisition program, double the amount provided in 2006. For the Boll Weevil Eradication loan program, the budget requests \$59 million, a reduction of \$41 million from 2006. This reduction is due to the successful completion of eradication efforts in several areas. The amount requested is expected to fully fund those eradication programs operating in 2007.

For emergency disaster loans, no additional funding is requested. As of January, about \$175 million is available for use in 2006, and sufficient funding is expected to carry forward into 2007 to assist producers whose farming operations have been damaged by natural disasters.

RISK MANAGEMENT AGENCY

The Federal crop insurance program represents one of the strongest safety net programs available to our Nation's agricultural producers. It provides risk management tools that are compatible with international trade commitments, creates products and services that are market driven, harnesses the strengths of both the public and private sectors, and reflects the diversity of the agricultural sector.

In 2005, the crop insurance program provided about \$45 billion in protection on over 246 million acres. Our current projection is that indemnity payments to producers on their 2005 crops will be about \$3.3 billion, which is about the same level as in 2004. Our current projection for 2007 shows a moderate increase in the value of protection to more than \$49 billion. This projection is based on the Department's latest estimates of planted acreage and expected changes in market prices for the major agricultural crops, and assumes that producer participation remains essentially the same as it was in 2005.

The 2007 budget requests an appropriation of "such sums as are necessary" as mandatory spending for all costs associated with the program, except for Federal salaries and expenses. This level of funding will provide the necessary resources to meet program expenses at whatever level of coverage producers choose to purchase.

The Risk Management Agency (RMA) is making significant progress in preempting fraud, waste, and abuse through the expanded use of data mining. RMA has preempted million of dollars' worth of improper payments and continues to identify ways to reduce program abuse. RMA continues to use data mining to identify anomalous producer, adjuster, and agent program results and, with the assistance of FSA offices, conducts growing season spot checks to ensure that new claims for losses are legitimate. These spot checks based on data mining have resulted in a significant reduction in anomalous claims for certain situations.

Despite the successes of the crop insurance program, more can be done to improve its effectiveness. One of the overarching goals of the crop insurance program has been the reduction or elimination of ad hoc disaster assistance. However, in recent years Congress has passed four disaster bills covering 6 crop years and costing the government about \$10 billion. Therefore, the budget includes a proposal to link the purchase of crop insurance to participation in farm programs, such as the direct and counter-cyclical payment programs. This proposal would require farm program participants to purchase crop insurance protection for 50 percent, or higher, of their expected market value or lose their farm program benefits. This level of coverage is nearly double the amount of protection currently provided at the catastrophic level.

Additionally, participants in the Federal crop insurance program would contribute to the President's deficit reduction program. The budget includes several proposals that would reduce subsidies paid to producers and approved insurance providers. In total, these changes are expected to save about \$140 million annually beginning in 2008.

Salaries and Expenses

For salaries and expenses of RMA, \$81 million in discretionary spending is proposed, an increase of \$4.5 million from the 2006 level of about \$77 million. This net increase includes additional funding for IT, increased staff years to improve monitoring of the insurance companies, and pay costs.

The budget also includes a proposal to implement a participation fee to fund IT modernization and maintenance costs. The fee, of about one-half cent per dollar of premium, would be assessed on the insurance companies that participate in the program and benefit from the subsidies paid by the Federal Government. The fee will be collected beginning in 2008 and will initially supplement the annual appropriation to provide for modernization of the IT system. After modernization is completed, the fee would be shifted to maintenance and would at that point reduce the discretionary appropriation required by RMA.

RMA has an aging IT system; the last major overhaul occurred about 12 years ago. At that time, the crop insurance program offered seven plans of insurance covering roughly 50 crops and providing about \$14 billion in protection. In 2005, protection was offered through more than 20 plans of insurance covering 370 crops, plus livestock and aquaculture, and providing over \$44 billion in protection.

Several major changes also have occurred over the years in the way producers protect their operations from losses. In 1994, there were no plans of insurance that offered protection against changes in market prices. Today, over 50 percent of the covered acreage has revenue protection and nearly 62 percent of the premium collected is for revenue based protection. In addition, the Agricultural Risk Protection Act (ARPA) of 2000 authorized the development of insurance products to protect livestock. RMA has implemented several new livestock price protection products. Because livestock production occurs year-round, these products must be priced and sold in a different manner than traditional crop insurance. The advent of new types of insurance, not contemplated when the IT system was designed, has placed tremendous strain on an aging system.

ARPA also instituted new data reconciliation, data mining, and other anti-fraud, waste, and abuse activities that require the data to be used in a variety of new ways. The current IT system was not designed to handle these types of data operations. Consequently, the data must be stored in multiple databases which increases data storage costs and processing times, and increases the risk of data errors.

Finally, I would note that the budget for RMA includes a request for 15 additional staff years. This increase will provide RMA with the additional resources necessary to improve oversight and internal controls of the insurance providers. In 2002, American Growers', the Nation's largest crop insurance company, failed. RMA, in concert with the Nebraska Department of Insurance, did a tremendous job of ensuring that both the producers' and the Government's interests were protected, indemnities paid, and policies transferred to other insurance providers. The additional staffing will help to ensure that a similar failure does not occur in the future.

FOREIGN AGRICULTURAL SERVICE

I would now like to turn to the international programs and activities of the FFAS mission area. One of the goals that Secretary Johanns has established for the Department is to enhance the international competitiveness of American agriculture in order to provide increased export opportunities for our farmers and ranchers. The FFAS mission area is a primary contributor to that goal through activities that expand and maintain opportunities for U.S. agricultural exports; enhance the global sanitary and phytosanitary system to facilitate agricultural trade; and support international economic development and trade capacity building.

We made noteworthy progress in our export expansion activities during the past year. During fiscal year 2005, the value of U.S. agricultural exports was once again at a record level, and we are presently on course to set another record—\$64.5 billion—during fiscal year 2006.

One of our highest priorities this past year was working to achieve an agreement on reform of agricultural trading practices in the Doha Round of multilateral trade negotiations. Last fall, the United States tabled an ambitious proposal to advance the negotiations that we believe provides the basis for their successful conclusion. Although the ambition of our proposal has not been matched by others, Members of the World Trade Organization (WTO) have agreed to reach agreement on the modalities (i.e., reduction formulas and methodologies) for a final agreement by the end of April, and we are working diligently to achieve that goal. We have a tremendous opportunity to achieve significant reforms in this Round, and we are committed to achieving a successful outcome that will provide new and meaningful opportunities for export growth in future years.

Regional and bilateral trade agreements are another, very important avenue for opening new markets. Just last month, the President announced that South Korea and the United States intend to negotiate a bilateral free trade agreement that will offer significant opportunities for increased sales of U.S. food and agricultural products in what is already our sixth largest overseas market. In addition, we have re-

cently completed free trade negotiations with Peru, Colombia, and Oman and are continuing negotiations with an array of other countries that are expected to provide new opportunities for U.S. agricultural sales.

One of our other very important priorities during the past year has been our efforts to recover access to overseas markets for U.S. beef that were closed following the discovery of bovine spongiform encephalopathy (BSE) in the United States in 2003. Despite our recent setback with Japan in this regard, we have made significant progress. To date, we have regained at least partial access to 28 markets (not including Japan). Restarting shipments to Japan is now of paramount importance. We are confident the steps Secretary Johanns has directed be implemented in response to recent developments in Japan lay the groundwork for resumption of sales there. The Department has provided a full report on this matter to Japan, and we will continue to engage our Japanese counterparts to achieve our objective of resuming sales in near future.

Salaries and Expenses

The Foreign Agricultural Service (FAS) is the lead agency for the Department's international activities and is in the forefront of our efforts to expand and preserve overseas markets. Through its network of 77 overseas offices and its headquarters staff here in Washington, FAS carries out a wide variety of activities that contribute to the objective of providing increased export opportunities for our agricultural products.

During the past year, FAS has continued to review its activities and operations in order to ensure that it is structured appropriately to address priority issues that will characterize global agriculture in the 21st century. As a result of the agency's review, FAS has increased its focus on inherently governmental functions such as trade negotiations, enforcement of trade agreements, and strategic management of country relationships. In response to the increased importance of sanitary and phytosanitary issues for trade, FAS has stepped up its monitoring and enforcement activities and increased its efforts through international standard-setting bodies to support the development of science-based regulatory systems. It also has increased its emphasis on trade capacity building activities that facilitate achievement of the U.S. trade agenda.

With trade of such critical importance to the future health and vitality of American agriculture, it is imperative that FAS have the resources needed to continue to represent and advocate for American agriculture on a global basis and to open new markets overseas. The budget provides a program level of \$162 million for FAS in 2007, an increase of \$11 million above 2006. This includes funding to meet higher overseas operating costs at the agency's overseas posts, including increased payments to the Department of State for administrative services provided at overseas posts.

Funding is also included for FAS' contribution to the Capital Security Cost Sharing Program. Under that program, agencies with an overseas presence in U.S. diplomatic facilities are contributing a proportionate share of the construction of new, safe U.S. diplomatic facilities over a 14-year period.

The budget also includes funding to support a new Trade Capacity Building initiative that supports U.S. trade policy objectives. By assisting developing countries to adopt policies that meet WTO standards and regulatory systems that are transparent and science-based, we will improve access for U.S. products to their markets. At the same time, by enhancing their ability to benefit from trade, we encourage them to become more forthcoming and supportive in market access negotiations. As their ability to participate in and benefit from global trade is improved, they will become better markets for U.S. agricultural exports.

International Food Assistance

The United States continues to provide leadership in global efforts to provide humanitarian relief and promote economic development through foreign food assistance. Emergency needs for food assistance remain at high levels, particularly in sub-Saharan Africa. To help meet those needs, the supplemental appropriations package submitted by the President on February 16th includes a request for \$350 million to support additional Public Law 480 Title II food donations. This funding will be used to respond to humanitarian food aid needs in the Darfur region of Sudan, including for refugees in neighboring Chad; other regions of Sudan; and other areas facing critical food situations, including those in East and Central Africa.

For 2007, the budget continues our support for these efforts by providing an overall program level of nearly \$1.6 billion for U.S. foreign food assistance activities.

For the Public Law 480 program, the budget includes a projected program level of \$1.3 billion. This includes \$1.2 billion of appropriated funding requested in the

budget, plus projected reimbursements from the Maritime Administration for prior year cargo preference related expenses. The budget proposes that all funding for Public Law 480 will be provided through Title II donations in 2007 and, therefore, includes no new funding for additional Title I concessional credit or grant programs.

This proposal reflects the experience of recent years in which an increasing share of U.S. foreign food assistance has been directed to emergency situations in which food aid is critical to preventing famine and saving lives. At the same time, demand for food assistance provided through concessional credit has declined significantly. This year, only two government-to-government agreements are expected to be signed.

The budget also proposes that the Administrator of the Agency for International Development have the authority in emergency situations to use up to 25 percent of Title II funding to purchase commodities in locations closer to where they are needed. This authority is intended to expedite the response to emergencies overseas by allowing food aid commodities to be purchased more quickly and closer to their final destination, while increasing the total amount of commodities that can be procured to meet those emergencies. It is important to emphasize that U.S. commodities will continue to play the primary role in U.S. foreign food aid purchases and will be the first choice for meeting global needs. Furthermore, with this authority commodities would be purchased from developing countries that are eligible for official development assistance and not from developed countries, such as the European Union.

For the McGovern-Dole International Food for Education and Child Nutrition Program, the budget continues funding at the 2006 level. With the conclusion of 2005 programming, this program and its predecessor, the Global Food for Education Initiative, will have provided assistance to more than 10 million children, mothers, and infants throughout the world. Particularly noteworthy, this assistance has helped establish sustainable programs in four countries—Kyrgyzstan, Lebanon, Moldova, and Vietnam—where parents and local governments have assumed responsibility for continuing the feeding programs, allowing United States support to be ended.

The budget also includes an estimated program level of \$161 million for the CCC-funded Food for Progress program, which supports the adoption of free enterprise reforms in the agricultural economies of developing countries.

Export Promotion and Market Development Programs

FAS administers the Department's export promotion and market development programs that play an important role in our efforts to enhance the international competitiveness of American agriculture.

The CCC export credit guarantee programs provide payment guarantees for the commercial financing of U.S. agricultural exports. The guarantees facilitate exports to buyers in countries where credit is necessary to maintain or increase U.S. sales. For 2007, the budget projects a program level of nearly \$3.2 billion for CCC export credit guarantees.

For the Department's market development programs, including the Market Access Program and Foreign Market Development Program, the budget includes funding of \$148 million. This level reflects a proposal to limit the Market Access Program to \$100 million in 2007, which is intended to achieve savings in mandatory spending and contribute to government-wide deficit reduction efforts.

The budget also includes \$35 million for the Dairy Export Incentive Program and \$28 million for the Export Enhancement Program.

Trade Adjustment Assistance

For the Trade Adjustment Assistance (TAA) for Farmers Program, the budget includes \$90 million, as authorized by the Trade Act of 2002. The program provides assistance to producers of raw agricultural commodities, who have suffered lower prices due to import competition, and to fishermen who compete with imported aquaculture products. In order to qualify for assistance, the price received by producers of a specified commodity during the most recent marketing year must be less than 80 percent of the national average price during the previous 5 marketing years. In addition, a determination must be made that increases in imports of like or competitive products "contributed importantly" to the decline in prices.

During 2005, 14 petitions for TAA were approved, including 9 that were recertified for a second year of assistance. Commodities that were approved for assistance included Pacific salmon, shrimp, lychees, California black olives, Idaho potatoes, and Concord juice grapes. Total program costs for 2005 were approximately \$21 million.

The deadline for submission of petitions for 2006 TAA closed on January 31. To date, TAA petitions have been certified for producers of Florida avocados and Indiana snapdragons. Additional petitions are under review, and decisions on their eligibility should be announced in the near future.

That concludes my statement, Mr. Chairman. I would be pleased to answer any questions that you and other Members of the Committee may have.

PREPARED STATEMENT OF TERESA C. LASSETER, ADMINISTRATOR, FARM SERVICE AGENCY

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before you for the first time as Administrator of the Farm Service Agency (FSA). I have taken the helm at a challenging moment for FSA—a moment when the agency is at a crossroads. As things currently stand, we are faced with a choice between delivering programs to the best of our ability using current methods, or modernizing the agency in terms of structure and technology to respond more quickly to new legislation, provide better access to our programs and data for our customers and business partners, and more efficiently implement a 2007 Farm Bill. Our fiscal year 2007 budget request provides a fiscally responsible approach which addresses these agency priorities while also doing our part to restrain discretionary spending to help reduce the deficit. Before I begin discussing the details of the budget, I would like to comment on how we arrived at our current position, provide a status of some of our current initiatives and challenges, and solicit your support and partnership for approval of this budget request.

Office Structure

As competition and accountability for limited resources continue to increase, we want to ensure we are still providing our customers with the efficient, accurate and timely service they deserve. Quite frankly, FSA as presently structured must change in order to best serve our customers. There have been numerous program changes over the past few years as well as improvements in technology that have shifted our workload. Also, reductions in the number of employees in the past 3 years require that we adjust our present structure. As you know, we set aside our FSA tomorrow plan and stopped all actions on county office restructuring and office closures under that plan. Many of our State Executive Directors, however, are experiencing extreme difficulty in providing services due to the increased number of offices that have two or fewer employees in them, and the increasing number of managers who are responsible for more than one county and must divide their time between two or more offices.

At present we have 36 offices that have no permanent employees in them, 144 offices with only one employee, 372 offices with 2 employees, and 266 offices that share a manager. Providing a full range of services to our customers full-time is impossible in these offices. We must reorganize, modernize and streamline this agency from the bottom up. We must reinvent FSA on a technological platform that feels more like 2006 than 1980. Having set aside the national FSA Tomorrow plan, and in accordance with your guidance, we have asked our State offices for a full review of their technology, training, staffing and facilities. We know that we need widespread technology upgrades. We know that we need to provide our people with better training. We know that absent our ability to hire more employees, temporaries and contractors, we need technology to streamline our operations to increase productivity.

FSA's State Executive Directors (SEDs) will conduct independent, local-level reviews of the efficiency and effectiveness of the FSA office structure in each State. SEDs and State committees will form review committees to identify what the optimum network of FSA facilities, staffing, training, and technology should be in each State within existing budgetary resources and staffing ceilings. Furthermore, SEDs will also explore potential joint-effort opportunities with the Natural Resources Conservation Service and other Department of Agriculture agencies.

As recommendations are received from each State, FSA's Deputy Administrator for Field Operations will review and validate the proposed changes. After the recommendations are shared with the affected Congressional delegations, the agency will hold public hearings and coordinate communications efforts with area farmers, ranchers, and stakeholders.

We will faithfully follow your instructions as outlined in Public Law 109-97. If State offices recommend that any of our offices be closed or consolidated, we will hold public hearings within 30 days and notify Congress of all impending changes within 120 days.

Administrative Budget Trends

Congress has provided an increase in the appropriations for our Salaries and Expenses (S&E) account each year, and we appreciate the support of the Committee reflected in those numbers. At the same time, however, operational costs such as

pay costs, information technology infrastructure and legacy systems, rents, and utilities have been increasing at a faster pace. The President's Budgets have taken this reality into account in the requested levels. However, for the past 3 years the enacted appropriations for S&E together with the FSA component of the Common Computing Environment account have averaged about 3.8 percent below the budget request. In addition, during fiscal year 2005, FSA implemented the newly enacted Tobacco Buyout Program under the American Jobs Creation Act of 2004 and disaster programs for 2003, 2004, and 2005 crop losses as directed by the Military Construction Appropriation and Emergency Hurricane Supplemental Appropriations Act, 2005. It is estimated that these programs cost the Agency a minimum of \$26 million to administer.

These effective reductions in the agency resource level have been addressed through aggressive cost-cutting measures. For example, FSA reduced discretionary non-information technology (IT) expenses such as travel, equipment and supplies by 39.5 percent from fiscal year 2003 levels. FSA also deferred and realigned investment funding intended for modernization of IT systems in order to fund uncontrollable increases in non-discretionary IT and non-IT expenses. FSA successfully carried out its new programs at the expense of its modernization progress. In addition, Federal and non-Federal permanent staffing ceilings were reduced by 5 percent and 3 percent from fiscal year 2003 to fiscal year 2005.

Mr. Chairman, we in FSA have always considered ourselves a "can-do" agency. That is why in recent years we have told an optimistic story even while facing resource challenges. And that is why it is difficult to come before you sounding a less optimistic note today. The time has passed, however, when we can promise to do more with less. The time has come when we must make some difficult choices. This brings me back to the crossroads I mentioned earlier: do we direct our resources to maintaining the status quo as nearly as possible to focus on near-term program delivery? Or do we make the investments needed for future program delivery, which would divert resources from current activities? Even with your support for the President's budget, we must work with our stakeholders on an acceptable office consolidation plan to ensure we are providing our customers with the quality service they are entitled to.

Our restructuring plan is not limited to our county offices but will involve a comprehensive review of the organization and operations at all levels of the agency, including State and national offices. We need to wisely invest in our employees, technology and equipment. With the 2007 requested level for both our Salaries and Expenses and the Common Computing Environment accounts, we can achieve this by providing critical training to our employees, upgrading computer systems, networks and software, and modernizing local office equipment. With over 45 percent of FSA offices staffed with three or fewer people, IT modernization has become significantly more important.

Employee Buyout Program

During first quarter of fiscal year 2006, we conducted two employee buyout programs, commonly known as the Voluntary Separation Incentive Program (VSIP) or "buyouts" and the Voluntary Early Retirement Authority (VERA) or "early outs". A total of 424 Federal and non-Federal employees were separated from FSA with buyout payments of up to \$25,000. Several factors influenced our decision to request VSIP and VERA authority, including legislative changes ending the tobacco program, a transfer of the bulk of the administrative activity FSA previously performed for the Natural Resources Conservation Service (NRCS) on the Environmental Quality Incentives Program back to NRCS in fiscal year 2005, and shifts in program participation in certain States causing workload decreases in those States and a resulting staffing imbalance. As a result, reductions to staffing levels could be absorbed at the affected locations, without severely impacting their ability to deliver ongoing programs. The buyouts resulted in a 3-percent reduction in FSA permanent staffing levels. Through the use of buyout/early out authority we were able to more efficiently align ourselves within existing resources and begin to right-size in an employee friendly manner without the need for a reduction-in-force. In partnership with stakeholders, implementation of a comprehensive agency-wide restructuring plan will enable us to address our remaining workforce right-sizing challenges.

Disaster Assistance

The past 2 years have presented producers with tremendous challenges from Mother Nature, with record rainfall in parts of the country, a pervasive drought in the West, and the worst hurricane season in decades. The Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico and Pandemic Influenza Act, 2006 (Public Law 109-148) included \$404 million for the Emergency Forestry

Conservation Reserve Program, which will provide assistance for farmers and ranchers who have suffered forestry damage directly related to hurricanes Katrina, Ophelia, Rita, Dennis and Wilma. FSA anticipates publishing the rule and issuing software by late winter, and holding a 2006 signup in the spring. In addition, \$199.8 million was designated for the Emergency Conservation Program (ECP). The language of the Supplemental Appropriations Bill provides for assistance with restoration of activities such as oyster operations not normally covered by ECP. Therefore, new regulations are required to make certain that new practices are developed that achieve the goals of the program while ensuring program integrity. We expect ECP regulations to be published soon, with signups anticipated in early spring.

In addition, Secretary Johanns authorized \$250 million for crop disaster, livestock, dairy, tree and aquaculture assistance. These funds are authorized under Section 32 of the Agricultural Act of August 24, 1935, which allows the Secretary to restore producers' purchasing power. These funds will be distributed by way of five new programs: the Tree Indemnity Program (TIP), the Livestock Indemnity Program (LIP), the Feed Indemnity Program (FIP), the Hurricane Indemnity Program (HIP), and an Aquaculture Block Grant program. The Secretary announced these programs on January 26, 2006. For TIP, LIP, FIP, and HIP, interim final regulations are in final clearance, and signups will begin in late June. For the Aquaculture Program, memorandums of understanding will be sent to the States in early March.

Prior to the President's signing of the Emergency Supplemental Appropriations Bill, FSA made more than \$30 million in Emergency Conservation Program assistance available to agricultural producers suffering damage from Hurricane Katrina. In addition, USDA's Commodity Credit Corporation implemented immediate changes to its Marketing Assistance Loan Program to allow producers to obtain loans for on-farm grain storage on the ground in addition to grain bins and other normally approved structures.

Tobacco Transition Program

FSA has expeditiously implemented the provisions of the "The Fair and Equitable Tobacco Reform Act," otherwise known as the "tobacco buyout" program which was part of the American Jobs Creation Act of 2004, signed by the President on October 22, 2004. The Act terminated the tobacco quota and price support program of more than 65 years, which had restricted production and kept domestically produced tobacco prices high. The program allows producers and quota owners to sign up for 10 years of transition payments to ease the economic adjustment process.

As of December 20, 2005, the Commodity Credit Corporation (CCC) had approved 382,972 quota holder contracts valued at \$6.6 billion, and 181,696 producer contracts valued at \$2.9 billion. CCC disbursed fiscal year 2005 payments to 563,770 contracts holders, valued at \$945.9 million.

On October 17, 2005, CCC implemented the successor-in-interest provision of the Tobacco Transition Payment Program or TTPP. The successor-in-interest program allows contract holders to transfer their remaining contract rights in full to a third party in return for a lump-sum payment. As of December 2, 2005, 89,885 quota holder and producer contracts valued at \$1.5 billion were sold to lump-sum providers. There are over 60 financial institutions participating in the successor-in-interest program.

As of February 28, 2006, approximately \$934.6 million had been disbursed for fiscal year 2006 TTPP payments. County offices will continue to disburse payments through March. Contracts requiring a correction for over- or under-payments have been delayed. The correction software is complex and deployment is targeted for late April.

BUDGET REQUESTS

Turning now to the specifics of the 2007 Budget, I would like to highlight our proposals for the commodity and conservation programs funded by the Commodity Credit Corporation (CCC); the farm loan programs of the Agricultural Credit Insurance Fund; our other appropriated programs; and administrative support.

COMMODITY CREDIT CORPORATION

Domestic farm commodity price and income support programs are administered by FSA and financed through the CCC, a government corporation for which FSA provides operating personnel. Commodity support operations for corn, barley, oats, grain sorghum, wheat and wheat products, soybeans, minor oilseed crops, upland cotton and extra long staple cotton, rice, milk and milk products, honey, peanuts,

pulse crops, sugar, wool and mohair are facilitated primarily through loans, payment programs, and purchase programs.

The 2002 Farm Bill authorizes CCC to transfer funds to various agencies for authorized programs in fiscal years 2002 through 2007. It is anticipated that in fiscal year 2006, \$1.797 billion will be transferred to other agencies.

The CCC is also the source of funding for the Conservation Reserve Program administered by FSA, as well as many of the conservation programs administered by the Natural Resources Conservation Service. In addition, CCC funds many of the export programs administered by the Foreign Agricultural Service.

Program Outlays

The fiscal year 2007 budget estimates largely reflect supply and demand assumptions for the 2006 crop, based on November 2005 data. CCC net expenditures for fiscal year 2007 under current law are estimated at \$20.2 billion, down about \$1.1 billion from \$21.3 billion in fiscal year 2006. If the President's proposals for farm program savings are enacted, CCC outlays would decline by an additional \$1.1 billion in fiscal year 2007.

This net decrease in projected expenditures is attributable to decreases for crop, tree and livestock disaster payments, tobacco payments, loan deficiency payments, and the Noninsured Assistance Program, partially offset by an increase in counter-cyclical payments.

Reimbursement for Realized Losses

CCC is authorized to replenish its borrowing authority, as needed, through annual appropriations up to the amount of realized losses recorded in CCC's financial statements at the end of the preceding fiscal year. For fiscal year 2005 losses, CCC was reimbursed \$25.4 billion in fiscal year 2006.

Conservation Reserve Program

The Conservation Reserve Program (CRP), administered by FSA, is currently USDA's largest conservation/environmental program. For 20 years it has cost-effectively assisted farm owners and operators in conserving and improving soil, water, air, and wildlife resources by converting highly erodible and other environmentally sensitive acreage, normally devoted to the production of agricultural commodities, to a long-term resource-conserving cover. CRP participants enroll acreage for 10 to 15 years in exchange for annual rental payments as well as cost-share assistance and technical assistance to install approved conservation practices.

The 2002 Farm Bill increased authorized enrollment under this program from 36.4 million acres to 39.2 million acres. Under the fiscal year 2005 continuous and Farmable Wetlands Program (FWP) signups, a combined total of 387,000 acres was enrolled. We issued incentive payments totaling approximately \$76 million in fiscal year 2005 under continuous signup, Conservation Reserve Enhancement Program (CREP), and FWP under the incentives program that began in May 2000 to boost continuous signup participation. As of January 2006, total CRP enrollment is 35.9 million acres, nearly 92 percent of the 39.2 million acres authorized under the Farm Bill.

The CREP is also a major initiative under CRP that seeks to address recognized environmental issues of States, Tribes, and the Nation. CREP is a voluntary program implemented through Memoranda of Agreement with partners, such as States, Federal agencies, and private groups. FSA currently has 34 CREP agreements with 27 States with over 2 million acres reserved for enrollment. The program is very popular with environmental and wildlife groups, in addition to States and private landowners. More than 772,000 acres are currently enrolled in CREP nationwide. Most recently, in July 2005, FSA launched a new CREP project in Indiana.

No general signup was held in fiscal year 2005. However, the fiscal year 2007 budget assumes general signups in fiscal years 2006 and 2007 to enroll approximately 2.5 million acres and 4.9 million acres, respectively. In fiscal years 2006 and 2007, we anticipate enrolling 410,000 acres and 774,000 acres under continuous signup and the CREP. About 40,000 acres are estimated to be enrolled in the FWP in fiscal year 2006 and 40,000 acres in fiscal year 2007. Additionally, the fiscal year 2007 budget assumes early re-enrollments and extensions of fiscal year 2007–2010 expiring contracts. Overall, CRP enrollment is assumed to gradually increase from 35 million acres at the end of fiscal year 2005 to 39.2 million acres by fiscal year 2008, and to remain at 39.2 million acres through fiscal year 2016, maintaining a reserve sufficient to provide for continuous signup and CREP.

FARM LOAN PROGRAMS

The loan programs funded through the Agricultural Credit Insurance Fund provide a variety of loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations.

The fiscal year 2007 Budget proposes a total program level of about \$3.5 billion. Of this total, approximately \$1 billion is requested for direct loans and nearly \$2.5 billion for guaranteed loans offered in cooperation with private lenders. These levels should be sufficient to provide adequate funding throughout the year. While the total request is below the amounts provided by Congress in fiscal year 2005 and 2006, it is nearly \$500 million above the amount actually obligated in fiscal year 2005.

For direct farm ownership loans we are requesting a loan level of \$223 million. The proposed program level would enable FSA to extend credit to about 1,921 small and beginning farmers to purchase or maintain a family farm. In accordance with legislative authorities, FSA has established annual county-by-county participation targets for members of socially disadvantaged groups based on demographic data. Also, 70 percent of direct farm ownership loans are reserved for beginning farmers, and historically about 35 percent are made at reduced interest rates to limited resource borrowers, who may also be beginning farmers. Recently, however, the reduced-rate provisions have not been utilized since regular interest rates are lower than the reduced rates provided by law. For direct farm operating loans we are requesting a program level of \$644 million to provide approximately 14,525 loans to family farmers.

For guaranteed farm ownership loans in fiscal year 2007, we are requesting a loan level of \$1.2 billion. This program level will provide about 4,600 farmers the opportunity to acquire their own farm or to preserve an existing one. One critical use of guaranteed farm ownership loans is to allow real estate equity to be used to restructure short-term debt into more favorable long-term rates. For guaranteed farm operating loans we propose a fiscal year 2007 program level of approximately \$1.3 billion to assist nearly 7,800 producers in financing their farming operations. This program enables private lenders to extend credit to farm customers who otherwise would not qualify for commercial loans and ultimately be forced to seek direct loans from FSA.

In addition, our budget proposes program levels of \$4 million for Indian tribe land acquisition loans and \$60 million for boll weevil eradication loans. For emergency disaster loans, our budget does not request any new appropriation; anticipated carryover funding will support a program level of approximately \$70 million, which should provide sufficient credit to producers whose farming operations are damaged by natural disasters.

The 2007 budget request reflects the Administration's proposed increase in the fees producers pay to secure guaranteed farm ownership or guaranteed unsubsidized farm operating loans. This change will bring the fees for these loans more in line with the fees charged to secure other types of guaranteed loans. This proposal will be implemented through the rulemaking process and is expected to save about \$30 million annually.

OTHER APPROPRIATED PROGRAMS

State Mediation Grants

State Mediation Grants assist States in developing programs to deal with disputes involving a variety of agricultural issues including distressed farm loans, wetland determinations, conservation compliance, program payment eligibility, and others. Operated primarily by State universities or departments of agriculture, the program provides neutral mediators to assist producers—primarily small farmers—in resolving disputes before they culminate in litigation or bankruptcy. States with mediation programs certified by FSA may request grants of up to 70 percent of the cost of operating their programs.

For fiscal year 2006, grants have been issued to 32 States. Two additional States are expected to become certified during the fiscal year. For fiscal year 2007, we anticipate that the requested \$4.2 million will provide grants to 34 States and seed funding for 2 new States.

Emergency Conservation Program

Since it is impossible to predict natural disasters, it is difficult to forecast an appropriate funding level for the Emergency Conservation Program, and in recent years the program has been funded through supplemental appropriations. During fiscal year 2005 Congress provided \$150 million for the program to assist producers in repairing damage caused by natural disasters. For fiscal year 2006, as I men-

tioned earlier, the program received supplemental funding of \$199.8 million specifically for hurricane damage to the Gulf States. On March 3, \$63 million of the \$199.8 million was allocated. The eligible States have requested a total of \$374 million. Nationwide, as of March 3, \$20.6 million is pending allocation to 28 States, and \$4.8 million has already been allocated, for recovery from various disasters utilizing funds carried forward from fiscal year 2005 together with recoveries of unused prior allocations. As of March 3, \$5.1 million is available for allocation nationwide. The fiscal year 2007 Budget proposal does not include funding for this program.

Dairy Indemnity Program

The Dairy Indemnity Program (DIP) compensates dairy farmers and manufacturers who, through no fault of their own, suffer income losses on milk or milk products removed from commercial markets due to residues of certain chemicals or other toxic substances. Payees are required to reimburse the Government if they recover their losses through other sources, such as litigation. As of March 1 we have paid fiscal year 2006 DIP claims totaling \$44,000 in 3 States.

The fiscal year 2007 appropriation request of \$100,000, together with unobligated carryover funds expected to be available at the end of fiscal year 2006, would cover a higher than normal, but not catastrophic, level of claims. Extended through 2007 by the 2002 Farm Bill, DIP is a potentially important element in the financial safety net for dairy producers in the event of a serious contamination incident.

Grassroots Source Water Protection Program

The Grassroots Source Water Protection Program (GSWPP) is a joint project by the Farm Service Agency and the nonprofit National Rural Water Association (NRWA) designed to help prevent surface and ground water pollution through voluntary practices installed by producers at the local level. With the fiscal year 2006 appropriations of \$3.7 million, the NRWA is hiring a rural source water technician in each of the 36 participating States to work with FSA State and county directors as well as State conservation specialists to develop water protection plans within priority watersheds.

Legislative authority for the GSWPP will expire September 30, 2007. The budget requests no funding for this program.

ADMINISTRATIVE SUPPORT

The costs of administering all FSA activities are funded by a consolidated Salaries and Expenses account. The account comprises direct appropriations, transfers from loan programs under credit reform procedures, user fees, and advances and reimbursements from various sources.

The fiscal year 2007 Budget requests \$1.41 billion from appropriated sources including credit reform transfers, for a net increase of about \$86 million over the fiscal year 2006 level. The request reflects increases in pay-related costs to sustain essential program delivery and increases in information technology investments. The request would fund IT operational expenses, technical analysis and design documentation of the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) program, and development and enhancements necessary to support legacy IT systems and maintain current IT operations during the transition to Web-based systems. It would also shift to the S&E account certain costs previously included in the Common Computing Environment (CCE) account, such as the Universal Telecommunications Network and enterprise licensing. These increases are offset by decreases in both Federal and non-Federal county office staff years and operating expenses.

As I have already noted, FSA has taken aggressive action over the past 3 years to reduce discretionary administrative expenditures and live within available funding. In conjunction with this effort, the employee buyout/early out program I mentioned earlier yielded a reduction of 143 Federal and 281 non-Federal staff-years for fiscal year 2006. The fiscal year 2007 request reflects a total of 5,253 Federal staff-years and 9,425 non-Federal staff-years, representing decreases of 65 and 24 staff-years, respectively, from the fiscal year 2006 levels. Temporary non-Federal county staff-years will remain at the fiscal year 2006 level of 650.

I would like to emphasize the importance of the support of FSA's modernization effort that is provided through the Department's CCE account. Funding made available to FSA under this account will provide needed telecommunications improvements and permit us to continue implementation of GIS, which is so crucial to rapid and accurate program delivery. If this source of funding were not available, the additional costs would have to be covered by FSA's S&E account.

Mr. Chairman, this concludes my statement. I will be happy to answer your questions and those of the other Subcommittee Members.

PREPARED STATEMENT OF A. ELLEN TERPSTRA, ADMINISTRATOR, FOREIGN
AGRICULTURAL SERVICE

Mr. Chairman, Members of the Subcommittee, I appreciate the opportunity to review the work of the Foreign Agricultural Service (FAS) and to present the President's budget request for FAS programs for fiscal year 2007.

INTRODUCTION

FAS is a small agency with a big mission: working to expand and maintain international export opportunities for U.S. agricultural, fish and forestry products; supporting international economic development through trade capacity building and sustainable development practices; and supporting the adoption and application of science-based Sanitary and Phytosanitary (SPS) regulations to facilitate agricultural trade. In addition to our Washington-based staff, the Agency maintains a network of overseas offices that provide critical market and policy intelligence to support our strategic goals, respond quickly in cases of market disruption, and represent U.S. agriculture in consultations with foreign governments.

To meet new international challenges, FAS has refined the three functions essential to our mission—market access, intelligence, and analysis; trade development; and agricultural development for national security. While the first two functions represent the historic activities of the Agency, the third reflects new tasks that we have identified as essential to support U.S. agriculture and broader U.S. Government policy goals.

In addition, we have developed a new strategic focus for the Agency. We are placing a greater priority on inherently governmental functions such as trade negotiations, enforcement of trade agreements, and strategic management of country relationships. We have increased our emphasis on SPS issues by stepping up our monitoring and enforcement activities and increasing efforts to work through international standard-setting bodies to support the development of science-based regulatory systems. We are placing greater emphasis on trade capacity building activities that are in line with the President's trade agenda, and we are shifting from implementing individual development activities to coordinating USDA international activities.

Market Access, Intelligence, and Analysis

Our core objective continues to be the expansion and maintenance of overseas market opportunities for U.S. agriculture. If we are to help U.S. food and agricultural exporters build on three consecutive years of record export sales, expanding market opportunities will be vital for America's food and agricultural sector. We all recognize the United States is a mature market, while around the world we see emerging markets with rapidly growing middle classes.

Our primary tool to expand access is the negotiation of new bilateral, regional, and multilateral trade agreements that lower tariffs and reduce trade impediments. FAS provides the critical analysis and policy advice to ensure U.S. agriculture achieves substantial benefits in these negotiations.

Over the past several years, maintaining existing market access has grown in importance. We monitor foreign compliance with trade agreements, analyze trade issues, and coordinate with other trade and regulatory agencies to develop effective strategies to avoid or reverse trade-disruptive actions. We also use the extensive expertise within USDA to pursue solutions to difficult technical issues that restrict trade, such as those related to bovine spongiform encephalopathy (BSE) and biotechnology or those that create barriers to trade, such as sanitary and phytosanitary or food safety regulations. We have increased our efforts to ensure that more trading partners use science-based regulatory systems and follow international guidelines in order to reduce the number of technical problems and non-science based policies that hinder trade. We also work with the Office of the U.S. Trade Representative to ensure trade agreements are enforced through formal dispute mechanisms, when necessary.

Trade Development

Our trade development function includes price/credit risk mitigation and market development programs that support U.S. firms and industries in their efforts to build and maintain overseas markets for U.S. agricultural products. The price/credit risk mitigation programs include the GSM-102 Export Credit Guarantee Program, the Supplier Credit Guarantee Program and the Facility Guarantee Program.

FAS administers two major market development programs—the Foreign Market Development (Cooperator) and Market Access Programs. These are carried out chiefly in cooperation with non-profit agricultural trade associations and private firms.

Several smaller programs—Technical Assistance for Specialty Crops (TASC) and the Quality Samples Program (QSP)—also provide financial and technical support to U.S. exporters.

Agricultural Development for National Security

President Bush's National Security Strategy recognizes international economic development, along with defense and diplomacy, as one of the three pillars of U.S. foreign and national security policy. The Strategy recognizes that the lack of economic development, particularly in fragile and strategic countries and regions, results in economic and political instability, which can pose a national security threat to the United States. For most developing countries, a productive and sustainable agricultural sector and open markets are the key elements for economic growth.

FAS deploys USDA's unique resources and expertise in agricultural development activities to promote market- and science-based policies and institutions, and sustainable agricultural systems. One way that USDA helps developing countries increase trade and integrate their agricultural sectors in the global economy is to improve regulatory frameworks. Promoting productivity-enhancing technologies that will help increase food security is also a priority. In addition, we support agricultural reconstruction in post-conflict or post-disaster countries or regions such as in Afghanistan.

MAJOR ACTIVITIES AND GOALS

In 2005, FAS was a key contributor to the bold U.S. agriculture proposal that has been credited with providing new impetus to the Doha Development Agenda of the World Trade Organization (WTO) negotiations. While much work needs to be done to bring the negotiations to a successful conclusion, we believe that the Hong Kong Ministerial Declaration laid a solid foundation for the final phase of the negotiations. Later this week, Secretary Johanns will participate in a Ministerial meeting in London. Ministers will be working to narrow differences in order to meet the April target for defining modalities.

In preparation for and follow-up to the Hong Kong Ministerial, FAS actively worked to convince developing countries, particularly cotton-producing African countries, of the benefits of trade to their economic growth. In addition, FAS conducted several technical assistance programs to help improve those countries' ability to trade. These efforts played a key role in helping move the Doha trade talks forward.

Last year saw Congressional ratification of the Central America-Dominican Republic-United States Free Trade Agreement. FAS worked in tandem with the Office of the United States Trade Representative (USTR) on the development, analysis and negotiation needed to bring the agreement to completion. When implemented, it will provide U.S. exporters improved access to 40 million consumers with growing incomes.

In 2005, we worked to recover trade lost as a result of the finding of BSE in the United States when 51 markets closed their borders to our products. I am pleased to report that we have regained at least partial access to 26 (not including Japan) of these markets for beef and beef products, representing 45 percent of our 2003 export value. Momentum in reopening export markets for U.S. beef gained considerably since Japan announced on December 12, 2005, that it was resuming imports of U.S. beef. Hong Kong, Korea, Taiwan, and Singapore all agreed to open to boneless beef. In addition, Mexico announced the lifting of its import ban on U.S. bone-in beef. These openings represented market access gains of 82 percent of our 2003 export value for beef and beef products (includes Japan). Unfortunately, as you know, Japan (\$1.4 billion market) has since closed its market due to the finding of vertebral column in a few boxes of a U.S. veal shipment, reducing our regained market access to \$2.5 billion. We continue to work on regaining Japanese confidence in U.S. beef and our ability to meet Japan's import requirements.

We successfully defended U.S. export market access in a number of countries. In the European Union (EU), our intervention delayed the implementation of debarking requirements for wood packaging materials. This ensured continued smooth trade in U.S. exports packed in or on wood packaging materials. That trade is valued at nearly \$80 billion annually. With the help of our industry partners, we were able to preserve \$300 million in corn gluten feed exports to the EU.

Through our monitoring and enforcement of the WTO Sanitary and Phytosanitary Agreement, we reviewed over 600 foreign SPS regulations and took direct action against 40 that were inconsistent with U.S. regulations or did not comply with the WTO Agreement. Our successes with India and China are particularly noteworthy. As a result of our efforts, India relaxed import requirements that could have blocked U.S. shipments of almonds, pulses, and horticultural products. Almond shipments, the top U.S. agricultural export to India, increased from \$95 million to \$118 million,

and U.S. sales of pulses grew from \$500,000 to over \$3 million in 1 year. Our actions caused China to change its import regulations on meat, wine, spirits and fresh fruit. U.S. exports of these products grew from \$142 million to \$252 million.

FAS has worked aggressively to recover, maintain and expand markets for U.S. farm products that have been produced with agricultural biotechnology. A high priority is assisting other countries in their efforts to develop, safely regulate, and begin using this important tool to reduce hunger and alleviate poverty. For example, for the past 2 years, the United States has aggressively pursued a WTO case against the EU's moratorium on agricultural biotechnology, which has cost U.S. producers of corn and related products, hundreds of millions of dollars each year. In addition, FAS leads U.S. efforts to work with like-minded countries to assure that international rules and regulations for agricultural biotechnology are science-based and implemented in transparent and predictable ways.

As in the case of the EU's biotechnology moratorium, when we are unable to resolve problems bilaterally, we have used the WTO dispute settlement mechanism to advance our trade objectives. In 2005, we were successful in cases with Japan on fire blight in apples and with Mexico on rice and high-fructose corn syrup.

Just as we look to the WTO to enforce our complaints against trading partners, we must also live up to WTO decisions that raise questions about U.S. programs. After the WTO decision in the Brazil cotton case, we were able to revise our export credit guarantee programs to comply with the deadline imposed by the WTO. Officials of several developing countries have complimented the United States on our efforts to bring our export credit guarantee programs in line with the WTO decision. Of course, we also recognize the important role that the Congress has played in working with the Administration to address these critical issues. We appreciate that Congress recently approved legislation including repeal of the Continued Dumping and Subsidy Offset Act—the Byrd Amendment—and the Step 2 cotton program. Both programs were ruled inconsistent with our WTO obligations. This action demonstrates that the United States intends to live up to our WTO commitments.

In the area of trade development, we launched several e-gov initiatives to improve electronic access to key programs to meet requirements of the President's Management Agenda. We launched a new electronic registration system for the export credit guarantee programs that allows U.S. exporters to quickly register sales via the Internet. We are implementing a streamlined, integrated process to manage grant applications.

Our projects to promote agricultural development took us to many countries. We participated in post-conflict reconstruction efforts in Afghanistan by sending 26 USDA advisors to nine provinces to assist with livestock management, irrigation methods, and rudimentary food safety procedures. We expanded trade capacity building and technical assistance efforts in Armenia, Algeria, Malawi and Yemen. We worked with African countries to help them develop the institutional capacity to expand their exports and to regulate imports according to principles of sound science. We placed pest risk assessment advisors in the trade hubs sponsored by the U.S. Agency for International Development, and we are training 200 people from 35 countries on a wide variety of sanitary and phytosanitary issues. We hosted an Avian Influenza Conference last summer for the Asian Pacific Economic Cooperation (APEC) forum that was attended by more than 100 officials from the 21 APEC economies.

Under the Cochran Fellowship Program, we provided short-term training for nearly 500 participants from 81 countries. Cochran participants meet with U.S. agribusiness, attend policy and food safety seminars, and receive technical training related to market development and trade capacity building. Under the Borlaug Fellows program, launched in 2004, 120 researchers, policymakers and university staff received short-term scientific training and research opportunities at U.S. colleges and universities.

Our food aid programs have helped millions of hungry people around the world. For example, under the McGovern-Dole International Food for Education and Child Nutrition Program, a record 3.4 million children and mothers benefited from our 2005 programming efforts.

In 2006, our goals include bringing the multilateral trade talks to a successful conclusion, working to complete the outstanding bilateral free trade agreements with the United Arab Emirates, Peru, Panama and Thailand, launching new negotiations with Korea, and monitoring existing agreements. We also will continue our efforts to ensure that more trade partners use science-based regulatory systems and follow international guidelines, particularly regarding BSE and products from agricultural biotechnology. Our trade capacity activities will be used to support all these efforts. We will continue the process to realign our overseas staff to meet the changing world trading environment, focusing on Asia.

BUDGET REQUEST

Mr. Chairman, our fiscal year 2007 budget proposes a funding level of \$162.5 million for FAS and 974 staff years, an increase of \$11.0 million above the fiscal year 2006 level. The budget has been developed to ensure the agency's continued ability to conduct its full array of activities and provide services to U.S. agriculture.

The budget proposes an increase of \$7.4 million to meet higher operating costs at FAS overseas offices. The FAS network of 77 overseas offices covering over 130 countries is vulnerable to macro-economic events and developments that are beyond the agency's control but which must be met if FAS' overseas presence is to be maintained. Specifically, these increases include:

- \$3.4 million for wage and price increases to meet higher operating costs at overseas offices. Declines in the value of the U.S. dollar, coupled with overseas inflation and rising wage rates, have led to sharply higher operating costs that must be accommodated in order to maintain our current overseas presence.
- \$1.1 million for increased payments to Department of State (DOS) for International Cooperative Administrative Support Services (ICASS). The DOS provides overseas administrative support for foreign affairs agencies through the ICASS system. FAS has no administrative staff overseas, and thus relies entirely on DOS/ICASS for this support.
- \$2.9 million for the Capital Security Cost Share program assessment. In fiscal year 2005, DOS implemented a program through which all agencies with an overseas presence in U.S. diplomatic facilities pay a proportionate share for accelerated construction of new secure, safe, and functional diplomatic facilities. These costs are allocated annually based on the number of authorized personnel positions. This plan is designed to generate a total of \$17.5 billion to fund 150 new facilities over a 14-year period. The FAS assessment will increase annually in roughly \$3 million increments until fiscal year 2009 to total annual assessed level of \$12 million. This level is assumed to remain constant at that point for the ensuing 9 years.

The budget also requests \$1.5 million in support of the President's trade policy agenda for Trade Capacity Building. One of the challenges we face is obtaining the dedicated funding that can be used throughout the Department in support of this initiative. Through technical assistance, training, and related activities, this initiative will support U.S. trade policy objectives on a proactive basis by assisting developing countries to adopt scientifically sound health and safety standards that will enable U.S. exporters to take advantage of negotiated market access. It will also strengthen their ability to participate in, and benefit from, the global trading arena and, thereby, enhance opportunities for U.S. agricultural exports. Successful Free Trade Agreement (FTA) implementation requires that market access issues based on SPS problems be resolved, otherwise the benefits of the FTA are not realized by either side. In this regard, FAS works closely with USDA agencies, such as APHIS and FSIS, and the Food and Drug Administration. Obtaining a dedicated source of funding will lay the foundation for more effective resolution of ongoing and emergent SPS market access issues without recourse to time-consuming and costly dispute resolution procedures.

Finally, the budget includes an increase of \$2.1 million to cover higher personnel compensation costs associated with the anticipated fiscal year 2007 pay raise. Without sufficient funding, absorption of these costs in fiscal year 2007 would primarily come from reductions in agency personnel levels that will significantly affect FAS efforts to address market access for U.S. food and agricultural exports.

EXPORT PROGRAMS

Mr. Chairman, the fiscal year 2007 budget proposes approximately \$4 billion for programs administered by FAS designed to promote U.S. agricultural exports, develop long-term markets overseas, and foster economic growth in developing countries.

Export Credit Guarantee Programs

The budget includes a projected overall program level of \$3.2 billion for export credit guarantees in fiscal year 2007. Under these programs, the Commodity Credit Corporation (CCC) provides payment guarantees for the commercial financing of U.S. agricultural exports. Last year, we announced changes to these programs to comply with the WTO cotton decision in a dispute with Brazil. We implemented a risk-based fee structure for the GSM-102 and Supplier Credit Guarantee Programs. Fee rates are now based on the country risk that CCC is undertaking, as well as the repayment term and repayment frequency under the guarantee. We also suspended operation of the GSM-103 program, effective July 1, 2005, in response to

a WTO dispute panel decision. In addition, USDA proposed legislative changes to the cotton and export credit programs. Congress passed legislation to repeal the Step 2 Program and the repeal will take effect on August 1, 2006.

As in previous years, the budget estimates reflect actual levels of sales expected to be registered under the programs and include:

- \$2.5 billion for the GSM-102 program;
- \$602 million for Supplier Credit guarantees; and
- \$30 million for Facility Financing guarantees.

The fiscal year 2005, the GSM-102 program provided credit guarantees which facilitated sales of approximately \$2.2 billion of U.S. agricultural exports to 8 countries and 6 regions. In fiscal year 2005, the Supplier Credit Guarantee Program (SCGP) registered approximately \$455 million in credit guarantees which facilitated sales of over \$700 million to 9 countries and 8 regions. USDA has also undertaken a top-to-bottom review of the Supplier Credit Guarantee Program. Most recently, USDA announced an Advanced Notice of Proposed Rulemaking on the SCGP and invited suggestions on changes that would improve program operations and efficiency. Several factors are behind the effort to improve program operations. As the SCGP has grown, defaults have also increased. Although CCC has improved its claims recovery process, further changes may be necessary. The comment period closed in late February and USDA is reviewing the comments.

Market Development Programs

Funded by CCC, FAS administers a number of programs to promote the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products. For fiscal year 2007, the CCC estimates include a total of \$148 million for the market development programs, \$100 million below the fiscal year 2006 level and includes:

- \$100 million for the Market Access Program;
- \$34.5 million for the Foreign Market Development (Cooperator) Program;
- \$10 million for the Emerging Markets Program;
- \$2.5 million for the Quality Samples Program; and
- \$2 million for the Technical Assistance for Specialty Crops Program.

The lower program level for these activities reflects a proposal to limit funding for the Market Access Program to \$100 million in fiscal year 2007, which is intended to achieve savings in mandatory spending and contribute to government-wide deficit reduction efforts.

International Food Assistance

The United States continues to play a leading role in providing international food aid. In this regard, the fiscal year 2007 budget includes an overall program level for U.S. foreign food assistance of \$1.6 billion consisting of:

- \$1.3 billion for Public Law 480 which is expected to provide approximately 2.2 million metric tons of commodity assistance. The budget proposes that all Public Law 480 food assistance be provided through the Title II donations program in fiscal year 2007, which is administered by the U.S. Agency for International Development. In recent years, there has been significant decline in demand for food assistance provided through concessional credit financing, accordingly, no funding is requested for Title I credit sales and grants. The budget includes an appropriation request of \$1.2 billion for Public Law 480 Title II, an increase of \$80 million over the 2006 enacted level, and proposes a new provision that will allow up to 25 percent of the funding to be used to purchase commodities locally in emergency situations thereby saving more lives.
- \$161 million for the CCC-funded Food for Progress Program. Funding at that level is expected to support 300,000 metric tons of commodity assistance.
- \$103 million for the McGovern-Dole International Food for Education and Child Nutrition Program. This comprises \$99 million in appropriations and an estimated \$4 million in reimbursements from the Maritime Administration. Funding at this program level will assist an estimated 2.5 million women and children through the donation of nearly 80,000 metric tons of commodities.

Export Subsidy Programs

FAS administers two export subsidy programs through which payments are made to exporters of U.S. agricultural commodities to enable them to be price competitive in overseas markets where competitor countries are subsidizing sales. These include:

- \$28 million for the Export Enhancement Program (EEP). World supply and demand conditions have limited EEP programming in recent years and therefore, the budget assumes a limited program level for 2007. However, the 2002 Farm Bill does include a maximum annual EEP program level of \$478 million which

could be utilized should market conditions warrant reactivation of the awarding of bonuses.

—\$35 million for the Dairy Export Incentive Program (DEIP), \$33 million above the fiscal year 2006 estimate of \$2 million. This estimate reflects the level of subsidy expected to be required to facilitate export sales consistent with projected United States and world market conditions. The actual level of bonuses awarded may change during the programming year as market conditions warrant.

Trade Adjustment Assistance for Farmers

Authorized by the Trade Act of 2002, the Trade Adjustment Assistance Program for Farmers authorizes USDA to make payments of up to \$90 million annually to members of eligible producer groups when the current year's price of an eligible agricultural commodity is less than 80 percent of the national average price for the 5 marketing years preceding the most recent marketing year, and the Secretary determines that imports have contributed importantly to the decline in price.

This concludes my statement, Mr. Chairman. I will be pleased to answer any questions.

PREPARED STATEMENT OF ELDON GOULD, ADMINISTRATOR, RISK MANAGEMENT AGENCY

Mr. Chairman and members of the Subcommittee, I am pleased to present the fiscal year 2007 budget for the Risk Management Agency (RMA). Although this budget was developed by my predecessor, I have been fully briefed on the funding issues facing RMA and I support the funding level requested in this budget submission.

One of my principle goals is to make the crop insurance program more efficient so farmers can be less reliant on ad hoc disaster payments. When I accepted this position, Secretary Johanns charged me with administering the crop insurance program in a timely and farmer-friendly manner. I take this charge very seriously; cooperation and unity between the Government and our reinsured partners are necessary to meet our common goals of providing effective insurance products, processing timely and accurate claims when losses occur and identifying and eliminating waste, fraud and abuse in the program to the greatest extent possible. In addition, effective outreach to our stakeholders and customers is necessary to identify attributes of the program that are working well and the aspects that need to be changed to improve efficiency and effectiveness. Administration of the crop insurance program requires all interested parties working together to identify viable insurance products and solutions that meet farmer/rancher needs of the agricultural community. Moreover, if the program is to continue to be successful, the checks and balances necessary to guard against the risks of fraud, waste and abuse need strengthening.

The Federal Crop Insurance Corporation continues to improve the economic stability of agriculture through a sound system of crop insurance, in paying out approximately \$3.3 billion in losses in fiscal year 2005. Overall, the program provided farmers with more than \$44 billion in protection on about 246 million acres with a participation rate of about 80 percent (principal crops). In order to maintain and go beyond our current participation rate, while at the same time reducing the expectation of ad hoc disaster payments when bad weather or natural disasters strike, a strategy that compels the purchase of crop insurance must be implemented.

The 2007 budget supports more than \$49 billion in protection on approximately 286 million acres through about 1.2 million policies. The appropriations required for this level of risk protection is \$4.2 billion, which includes program administration, product evaluation and program oversight, as well as premium subsidies, administrative expenses reimbursements, and payments for excess losses estimated above the mandated loss ratio of 1.075. The funding level proposed for the Federal Crop Insurance Corporation (FCIC) Fund is \$4.1 billion and for the Administrative and Operating Expenses, \$80.8 million.

FCIC FUND

The fiscal year 2007 budget proposes that "such sums as may be necessary" be appropriated to the FCIC Fund. This ensures the program is fully funded to meet the contractual obligation to pay claims, to reimburse for expenses incurred in delivering insurance to farmers and ranchers, and to provide premium subsidies to make crop insurance affordable. Of the total funding requested for the FCIC budget, 66 percent is for premium subsidies. This level of subsidy is necessary to maintain par-

ticipation in the program and to encourage producers to purchase higher levels of coverage.

To make the crop insurance program more efficient and to reduce the reliance on ad hoc disaster payments, the 2007 budget includes a proposal to encourage producers to purchase more adequate crop insurance coverage by linking direct payments or any other Federal payment for crops to the purchase of crop insurance. This change will ensure farmer's revenue loss would not be greater than 50 percent. Other changes include making catastrophic coverage more equitable in its treatment of both large and small farms, restructuring premium rates to better reflect historical losses, and reductions in delivery costs. Essentially, the majority of producers will have crop insurance and the minimum coverage level will be sufficient to support the producers when losses occur. The estimated savings to the program is \$140 million beginning in 2008. This proposal will be submitted along with the other mandatory proposals for farm programs that support the President's Budget.

The FCIC budget estimates are \$2.7 billion for premium subsidy, \$940.3 million for delivery expenses, \$379.8 million for estimated excess losses, and \$74.5 million for Agricultural Risk Protection Act of 2000 (ARPA) initiatives. With the exception of ARPA initiatives, these estimates are based on program indicators derived from USDA's latest projections of planted acreage and expected market prices.

ADMINISTRATIVE AND OPERATING EXPENSES (A&O)

RMA's fiscal year 2007 request of \$80.8 million for Administrative and Operating Expenses represents a base of \$76.3 million, which includes \$3.6 million for data mining, and an increase of about \$4.5 million from fiscal year 2006. The increase includes funding for an increase in Compliance staffing, \$1.3 million; improving monitoring of the insurance companies, \$1.0 million; pay costs, \$1.2 million; and information technology costs of \$1.0 million.

The 2007 budget requests \$1.3 million to support an increase of 15 staff years. This will raise RMA's employment ceiling from 553 to 568. The 15 staff years will support the increased workload for the Compliance function to provide the staffing to address outstanding OIG and GAO recommendations to improve oversight and internal controls over insurance providers. In response to several OIG audit reports, RMA needs to improve the process of auditing insurance providers to detect and correct vulnerabilities to proactively prevent improper payment of indemnities. The additional staffing will provide the necessary oversight to ensure taxpayers' funds are expended as intended.

Also included in the 2007 budget is \$1.0 million to expand the monitoring and evaluation of reinsured companies. RMA is requesting funds to establish a process of monitoring, evaluating, and auditing, on an annual basis, the performance of the product delivery system. These funds will be used to support insurance company expense audits, performance management audits and reinsurance portfolio evaluations to ensure effective internal and management controls are in place and operating for each reinsured company's business operations.

An increase of \$1.2 million is requested for pay costs. These funds are necessary to maintain required staffing to carry out RMA's mission and mandated requirements.

Lastly, an increase of \$1.0 million is requested for immediate IT requirements that will support patch-work enhancements to the existing IT system. If RMA is to continue to pay out billions of dollars in indemnity payments, it is prudent and necessary to have a current and reliable operating system to deliver the crop insurance program. To effectively manage a \$4 billion crop insurance program, a modernized IT system is necessary to replace RMA's core IT operating system that is over 12 years old.

In light of that, an additional legislative proposal in the 2007 budget is being offered to require the reinsured companies to share in the cost to develop and maintain a new IT system. The companies would be assessed a fee based on one-half cent per dollar of premium sold. The fee is estimated to generate an amount not to exceed \$15 million annually. After the IT system has been developed, the assessment would be shifted to maintenance and would be expected to reduce the annual appropriation of the salaries and expenses account of the agency.

PROGRAM MANAGEMENT

The following is an update on accomplishments and events in 2005 regarding key initiatives, activities and products:

- FCIC Board Activities
- Reinsurance
- Hurricane Crop Losses

- Pilot Programs
- Product Development
- Education and Outreach Program
- Agricultural Management Assistance
- Program Integrity

The FCIC Board of Directors consists of 10 members. The Board receives, reviews, and approves policies and plans of insurance and other related materials for reinsurance, risk subsidy, and administrative and operating subsidy. During 2005, the Board considered 62 action items during eight board meetings. The actions included 6 expert reviews, 23 program revisions and modifications, 10 new program submissions, and 23 corporate administrative items.

Reinsurance

Currently, there are 16 approved insurance providers. Recent entrants into the crop insurance program include: Austin Mutual Insurance Company and its managing general agent (MGA), Crop USA; Westfield Insurance Company and its MGA, John Deere Risk Protection, Inc., and Stonington Insurance Company and its MGA, Agro National, LLC. The new Standard Reinsurance Agreement has been put in place, effective beginning the 2005 crop year.

During 2005, RMA published a proposed rule for premium reduction plans (PRP). The PRP authorizes a company to pass confirmable cost savings to insured in the form of premium reductions. After a 60-day comment period, an interim final rule was published. Currently, nine insurance providers are eligible to offer a premium reduction plan for the 2006 reinsurance year. However, due to a provision in the 2006 appropriations act, the PRP will not be available for the 2007 reinsurance year which begins July 1, 2006.

Hurricane Crop Losses

Like other Federal agencies, RMA had a role in responding to victims of last years' hurricanes. When Wilma, Katrina and Rita hit the southeast and Gulf Coast areas, RMA's delivery system was available to respond to the crop losses ensuring the timely disbursement of payments. In addition, the Agency put in place emergency loss procedures to help producers who were subject to cancellation or termination dates for indebtedness or unpaid premium. This change allowed producers who might have become ineligible for the 2006 crop year to have additional time to either make payment of the premium due or execute a payment agreement with the approved insurance provider. This primarily impacted about 1,500 crop insurance policies that earned premium mostly on nursery, wheat, sugarcane, and oat crops. An estimated 500–600 insured producers were impacted. The following are the current 2005 loss estimates of the hurricanes:

Hurricane	States Impacted	Liability	Estimated Losses
Wilma	Florida	\$1,196,400,000	\$194,000,000
Katrina	Alabama, Florida, Mississippi, Louisiana	525,710,000	129,709,000
Rita	Arkansas, Louisiana, Texas	130,183,00	15,447,000
Total .....	.....	1,852,293,000	339,156,000

Pilot Programs

RMA has 26 active pilot programs in various phases of development. The pilot programs for crop year 2005 are Adjusted Gross Revenue (AGR) and AGR-Lite, apple pilot quality option, avocado actual production history, avocado revenue, avocado/mango trees, cabbage, cherries, citrus (dollar), coverage enhancement option, cultivated clams, cultivated wild rice, Florida fruit trees, forage seed, fresh market beans, the Income Protection plan of insurance, mint, mustard, onion, pilot stage removal option, processing chile peppers, processing cucumbers, rangeland, raspberry/blackberry, strawberries, sweet potatoes, and winter squash/pumpkins. After about three to five years of experience, pilot program evaluations are performed to determine whether the plans of insurance should be converted to permanent programs and offered in counties where the crop is routinely grown. During 2005, RMA completed evaluations on eight pilot programs including: cherries, chile peppers, California citrus, processing cucumbers, strawberries, winter squash, AGR and avocado revenue. After consideration by the FCIC Board, winter squash and processed cucumbers were terminated; cherries, chile peppers, and California citrus were continued as pilots until the 2006 crop year; and strawberries extended through the 2008 crop year. Consideration of the evaluations of AGR and avocado revenue pilots will come before the Board in the 2006 fiscal year.

Product Development

In January 2006, the FCIC Board approved two new pilots, pasture range and forage programs set to begin for the 2007 crop year. These are group-risk programs, one using a temperature adjusted normalized difference vegetative index and the other a rainfall index program. The programs will be piloted in different States and areas with sales beginning this fall. In addition, RMA plans to seek expert review of a third proposal this spring in an attempt to create viable products for commodities representing over 550 million acres.

Education and Outreach Program

A total of \$4.4 million was distributed for education and outreach projects with State departments of agriculture, universities and non-profit organizations. As a result, crop insurance education was provided to producers in Connecticut, Delaware, Maine, Pennsylvania, Rhode Island, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Utah, Vermont, West Virginia and Wyoming. These educational projects will promote risk management education opportunities by informing agribusiness leaders about new trends in risk management and by delivering risk management training to producers with an added emphasis on reaching small farmers.

Similar to last year, RMA awarded 40 commodity partnership agreements at a cost of \$5.5 million. These agreements will provide outreach to specialty crop producers to broaden their risk management education. In addition, RMA also directs education and outreach efforts toward women, small, and limited resource farmers, and ranchers. In 2005, 63 outreach projects were funded at a cost of \$7 million. RMA continues to partner with community-based organizations such as 1862, 1890, and 1994 land grant colleges, universities, as well as, with Hispanic serving institutions to provide technical assistance and risk management education on managing farming risks.

Agricultural Management Assistance

In 2005, RMA provided \$4.1 million in financial assistance to producers purchasing spring buy-up crop insurance policies in 15 targeted States. The primary goal of the program is to encourage producers to purchase higher levels of coverage, and to provide an incentive for new producers to enter the program. In 2005, RMA paid up to 15 percent of producers' out-of-pocket premium costs to encourage increased participation.

Program Integrity

RMA, the Farm Service Agency (FSA), and the reinsured companies continue to improve program compliance and integrity through: (1) data reconciliation and matching of disaster program payments; (2) evaluating and amending procedures for referring potential crop insurance errors or abuse between FSA and RMA; and (3) creating anti-fraud distance learning training packages as required by Agricultural Risk Protection Act of 2000. Compliance managers have increased efforts to integrate new data mining projects to improve program results and are exploring ways to expedite processing of sanctions requests.

The efforts of FSA and the results from the data mining and analysis tools have greatly improved the referral activity to and from RMA. As a result, from the period of January to December, 2004, an estimated \$71 million reduction in program costs has been identified by preventing or deferring unsubstantiated claims.

Currently, to manage the referral activity and the responsibilities of data reconciliation RMA has dealt with the added workload by increasing emphasis on data management and computer based resources. But the workload continues to create a challenge for Compliance to accomplish current activities along with new requirements mandated by ARPA without the benefit of additional resources. Therefore, the fiscal year 2007 budget includes 15 additional staff years for Compliance to strengthen the front-end reviews of approved insurance providers and to address outstanding recommendations to improve oversight and internal controls over insurance providers.

CONCLUSION

RMA is faced with many challenges to make the crop insurance program more efficient and effective. But along with these challenges come opportunities to provide more meaningful insurance products and tools, ensure a first-rate delivery system and the opportunity to verify and validate that the program is solvent and administered with integrity. I look forward to working with our stakeholders to make this program even better than it is today. However, the improvements require the re-

sources requested in the 2007 budget along with passage of the proposed legislations.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions.

Senator BENNETT. Thank you, sir.

Mr. Rey.

STATEMENT OF MARK REY

Mr. REY. Thank you, Mr. Chairman and Senator Kohl.

I am pleased to appear before you today to present the fiscal year 2007 budget and program proposals for the Natural Resources Conservation Service (NRCS).

Overall, for fiscal year 2007, the President's budget recommends a record \$4 billion in mandatory funding to expand participation in Farm Bill conservation programs throughout the department. Proposals in the 2007 budget will produce savings in both the mandatory and discretionary accounts. These savings will enable the administration to target funding based on resource needs and program results.

The 2007 budget request for the Natural Resources Conservation Service provides \$2.8 billion in total funding, with \$788.6 million in discretionary funding and \$2 billion in mandatory funding, including \$1 billion for the Environmental Quality Incentives Program.

Also, on the mandatory side, the budget request includes an increase of \$153 million for the Wetlands Reserve Program to enroll an additional 250,000 acres in fiscal year 2007. This represents a total investment of \$402 million for the Wetlands Reserve Program and will bring the total acreage enrolled in the program to more than 2.2 million acres.

The Wetlands Reserve Program is the principal supporting program for the President's Wetlands Initiative to restore, protect, and enhance 3 million acres of wetlands over a 5-year period that began in June 2004. The Wetlands Reserve Program contributes roughly one third of all of the acres included in the President's initiative.

The appropriations request includes \$634.3 million for the Conservation Technical Assistance Program, the base conservation program that enables NRCS to successfully implement Farm Bill conservation programs. In past testimony, the department has discussed the excellent score NRCS received in the measure of customer satisfaction for conservation assistance.

Today, I am pleased to announce that we are releasing a new report from the American Customer Satisfaction Index, conducted by the University of Michigan, that gives NRCS an overall score of 76 out of 100 for administering the Conservation Security Program (CSP). This score for CSP is considerably higher than the 2005 national average of 71 for other Federal Government programs.

We are very proud of the results of this survey, as it highlights our commitment to quality customer service. In addition, we have continued to make strides in streamlining our operations as well. We are striving to keep the administration of conservation programs as efficient and as lean as possible.

This year alone, we have streamlined program forms to make them more consistent among like programs, such as the easement

programs. We have consolidated program manuals where possible. We have established a process for rapid watershed assessments to provide initial estimates of where conservation investments can best address resource concerns, and we have instituted programmatic reforms, such as a pilot sign-up process for conservation planning and technical assistance.

We are also preparing for the future with a new strategic plan that charts the agency's future over the next 10 to 20 years. The plan introduced a new mission statement—"helping people help the land."

This mission and the accompanying vision statement affirm the agency's commitment to assist private land owners and solidify the essential connection between working agricultural lands and sustaining a healthy environment.

PREPARED STATEMENTS

In summary, I believe that the administration's fiscal year 2007 budget request reflects sound policy and provides solid support for the vital mission of voluntary conservation on private lands.

Thank you very much.
[The statements follow:]

PREPARED STATEMENT OF MARK REY

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to present the fiscal year 2007 budget and program proposals for the Natural Resources Conservation Service (NRCS) of the Department of Agriculture (USDA). I am grateful to the Chairman and members of this Subcommittee for the ongoing support of private lands voluntary conservation and the protection of soil, water, and other natural resources.

Farmers, ranchers, and other private landowners across America play a vital role in conserving our Nation's soil, water, air, and wildlife resources, while producing abundant food and fiber. More than 70 years of "helping people help the land" gives NRCS a firm foundation to meet the challenge of balancing production agriculture with resource conservation. For fiscal year 2007, the President's Budget meets that challenge by recommending a record \$4 billion in mandatory funding to expand participation in Farm Bill conservation programs.

PRESIDENT'S FISCAL YEAR 2007 BUDGET

The President's fiscal year 2007 budget request for NRCS provides resources for the ongoing mission of NRCS, while ensuring that new challenges faced by landowners can be addressed.

Because of the overriding need to reduce the deficit, NRCS, like every Federal agency, will share in the responsibility of controlling Federal spending. There are proposals in the fiscal year 2007 Budget that will produce savings in both the mandatory and discretionary accounts. These savings will enable the Administration to target funding based on need and program results.

With that said, the President's fiscal year 2007 budget request for NRCS recognizes the vital role that natural resource conservation plays in securing America's national security. Without productive soil, clean water and air, and farmers and ranchers who can make a living off the land, the United States would not be the strong Nation it is today.

The fiscal year 2007 budget request for NRCS provides \$2.8 billion in total funding, with \$788.6 million in discretionary funding, and \$2 billion in mandatory funding, including \$1 billion for the Environmental Quality Incentives Program.

Also on the mandatory side, the Budget request includes an increase of \$153 million for the Wetlands Reserve Program (WRP) to enroll and additional 250,000 acres. This represents an investment of \$402 million for WRP, and will bring the total acreage enrolled in the program to more than 2.2 million acres.

WRP is the principal supporter of the President's Wetlands Initiative to restore, protect, and enhance 3 million acres of wetlands over a 5 year period that will begin

in June 2004. WRP also contributes roughly one-third of all the acres toward the goals of the President's Wetlands Initiative.

The appropriation request includes \$634.3 million for the Conservation Technical Assistance (CTA) Program, which is the base program that supports the Department's conservation efforts with State and local entities, and the basic conservation planning and decision support needed to successfully implement Farm Bill conservation programs.

BUILDING STRONG ACCOUNTABILITY MEASURES

In the current budget environment, it is more important than ever to continue working diligently on accountability and results measurement for the funds provided by Congress. Mr. Chairman, I am proud of the great strides NRCS has made in the past year on this effort as well as on making NRCS information more accessible to farmers, ranchers, and the general public. NRCS has taken bold steps to address all the challenges identified as a result of the Office of Management and Budget's Program Assessment Rating Tool (PART) scores for various conservation programs. PART reviews have been completed for 12 NRCS programs. The Agency has used these assessments to develop long-term outcome based performance measures and to become even more results oriented.

Meeting the President's Management Agenda is critical to all of us at USDA. Linking program requirements and program allocations to performance and accountability measures helps both the Administration and Congress make the most informed budget decisions.

CONSERVATION SECURITY PROGRAM (CSP) CUSTOMER SERVICE RESULTS SURVEY

Mr. Chairman, in past testimony before this Subcommittee, I have discussed the excellent score NRCS received in a measure of customer satisfaction for conservation assistance. I am proud to report that according to the American Customer Satisfaction Index (ACSI) conducted by the University of Michigan, NRCS received an overall score of 76 out of 100 for administering CSP. This voluntary program supports ongoing stewardship of private agricultural land by providing payments for maintaining and enhancing natural resources.

NRCS' score for CSP is considerably higher than the 2005 national average of 71 for the Federal Government and right on track with earlier scores for the Environmental Quality Incentives Program (75) and the Wildlife Habitat Incentives Program (77) from surveys conducted in 2004.

The four drivers of satisfaction that were measured for CSP include its Self-Assessment Workbook, the one-on-one personal interview with NRCS, the contract review and award process, and NRCS staff. This is the first customer satisfaction survey for this new program.

STREAMLINING FOR CONSERVATION GAINS

NRCS continues to make strides in streamlining operations. In this process, the Agency is striving to keep the administration of conservation programs as lean as possible. We are doing that by:

- Streamlining the payment process;
- Building our eGovernment infrastructure, including eForms, and the programs Web site;
- Reducing required paperwork for customers through a common computer database in USDA Service Centers;
- Streamlining program forms that are used, trying to be more consistent between like programs such as the easement programs, and consolidating program manuals when possible;
- Costing and revising program allocation formulas to distribute funds to States on resource-based methodology;
- Working on an automated application ranking tool;
- Establishing a process for rapid watershed assessments to provide initial estimates of where conservation investments can best address resource concerns;
- Continuing to place programmatic and technical information available on the Agency's Web site to give our employees and customers access to the latest, high-quality information; and
- Instituting programmatic reforms such as a pilot sign-up process for conservation planning technical assistance.

ACCELERATING CONSERVATION IMPLEMENTATION

Accelerating conservation implementation is essential. Wise management of resources is critical. We need to get the 5 to 10-year contracts the Agency has signed with farmers completed, get the conservation on ground, and at the same time, aware of the realities of farm economics. Conservation is a wise investment in the future of our country's healthy soil, clean water, and abundant wildlife; but practicing good conservation also makes good economic sense.

STRATEGIC PLANNING FOR THE FUTURE

I am proud of the accomplishments NRCS achieved in 2005. An effort that particularly stands out is one undertaken to chart the future by completing a new strategic plan. The strategic planning process incorporated internal and external assessments of natural resources, human capital, civil rights, and other issues. The information collected through this assessment served as the foundation to formulate the new strategic plan. This plan will be a comprehensive roadmap to guide the Agency over the next 10 to 20 years.

The plan introduced a new mission statement, "helping people help the land." This mission, and an accompanying vision statement, articulates the Agency's role to assist private landowners and solidify the essential connection between retaining a viable agricultural presence on the landscape and sustaining a healthy environment.

CONCLUSION

Mr. Chairman, in summary, we are planning for the future under an atmosphere of increasingly austere budgets and economic uncertainties along with a multitude of other unknowns on the domestic and international fronts. I believe that the Administration's fiscal year 2007 Budget request reflects sound policy, and will provide stability to the vital mission of voluntary conservation on private lands. The Budget request reflects sound business management practices and the best way to work for the future and utilize valuable conservation dollars efficiently and wisely.

I thank members of the Subcommittee for the opportunity to appear, and would be happy to respond to any questions that Members might have.

PREPARED STATEMENT OF BRUCE I. KNIGHT, CHIEF, NATURAL RESOURCES
CONSERVATION SERVICE

Thank you for the opportunity to appear before you today to discuss our fiscal year 2007 budget request for the Natural Resources Conservation Service (NRCS).

As we look ahead to fiscal year 2007, and the contents of the Administration's budget request, I want to take a moment to reflect upon the successes that NRCS has faced in the past year and what we are doing to move the Agency forward. It has been a productive year for NRCS, our partners, and landowners across America. We have assisted landowners to treat over 42 million acres of conservation and develop over 4,400 Comprehensive Nutrient Management Plans (CNMP). This brings the total CNMPs applied with NRCS support since 2002 to more than 14,000. In addition, last year NRCS and our partners:

- Served nearly 3.8 million customers around the country;
- Completed or updated soil survey mapping on 31.2 million acres, of which, 1.8 million acres were on Native American or Native Alaskan lands;
- Conducted a comprehensive study of technical assistance, reaffirming the intrinsic value of scientifically based tools and activities including developing conservation plans and encouraging a knowledge-based approach to conservation;
- Committed to over 49,000 Environmental Quality Incentives Program (EQIP) contracts for multi-year conservation obligations;
- Enrolled over 3,300 Wildlife Habitat Incentives Program (WHIP) contracts;
- Expanded the Conservation Security Program nationwide to recognize outstanding land stewards and enable them to do more;
- Helped land managers create, restore, or enhance more than 284,000 acres of wetlands primarily through WRP;
- Facilitated nearly 1 million hours of Earth Team volunteer service; and
- Registered over 2,500 Technical Service Providers to assist in conservation planning and implementation efforts, obligating \$52.7 million in fiscal year 2005. This provided the equivalent of 520 staff years to attain additional conservation achievements.

As we look ahead to this year and beyond, we will direct our efforts toward ensuring that all of the potential conservation gains are fully realized. What I mean by

that is NRCS will be focusing on fine-tuning our business tools and solidifying the progress we have made in working with farmers and ranchers across America to implement conservation programs. We want to make sure everything works smoothly—for our employees and our customers. We want our decisions and processes to be transparent. We want to be even more efficient, effective and focused on meeting our customers' needs.

HELPING PEOPLE HELP THE LAND

For over 70 years, NRCS has been committed to locally led, voluntary cooperative conservation. Last year, one of our district conservationists from Iowa suggested that we describe our mission as “helping people help the land.” The phrase is succinct and it effectively describes what we do, so our Agency has adopted “helping people help the land” as our new mission statement.

NEW STRATEGIC PLAN

In fiscal year 2005, NRCS initiated an aggressive strategic planning process to develop a roadmap to guide the Agency over the next 10 to 20 years. This new NRCS Strategic Plan refines and builds on the goals and successes of past plans; and directly supports the new U.S. Department of Agriculture (USDA) Strategic Plan. The NRCS plan was developed around three foundations:

- Agency customers;
- Agency business lines and associated products and services; and
- Priority and newly emerging natural resource conservation issues.

The new plan emphasizes three overarching strategies—cooperative conservation, the watershed approach, and market-based approaches to conservation. These complementary strategies will be used effectively to assist private landowners manage their lands and resources to achieve national natural resource goals and objectives.

The plan includes six mission goals oriented toward existing and emerging natural resource challenges. Three are Foundation Goals which reflect long-standing conservation priorities and include: high quality, productive soils; clean and abundant water; and healthy plant and animal communities. Also, new in this plan are three Venture Goals that reflect emerging areas of natural resource interest, posing challenges for niche definition and capacity building. The Venture Goals include: clean air, an adequate energy supply, and working farm and ranch land preservation.

Even though the agency's new strategic plan has not yet been implemented, there are things that we are doing already to make this plan operational. We have integrated the concepts of business lines and new Agency goals in our fiscal year 2006 business planning process. Our Strategic Human Capital Plan has adopted the strategic plan as a framework, ensuring that succession planning aligns with the Agency's long-term goals and objectives. We are emphasizing cooperative conservation and market-based and watershed approaches in our programs, such as in the Cooperative Conservation Partnership Initiative and Conservation Innovation Grants that offer competitive grants to a broad and diverse array of potential customers.

HUMAN CAPITAL STRATEGIC PLAN

NRCS is in the process of developing a Human Capital Strategic Plan to help us focus on the future workforce of our Agency. Over the next 5 years, more than half of Federal employees are eligible to retire. This pool of potential retirees includes highly skilled key personnel such as our engineers, hydrologists, soil scientists, and agronomists, just to name a few. Because of the importance of these disciplines to our organization, it is vital that we have a strategy in place to fill-in behind these employees and provide the high level of expertise that our customers have come to expect. We will develop this plan to address the potential loss of so many employees and to compete for talent in a shrinking pool of candidates; primarily due to generational changes in employment trends, and shifts in academia from agriculture related disciplines to more ecology and ecological related degrees. We need a strategy that will continue to make NRCS the “employer of choice” for highly skilled individuals interested in serving in voluntary conservation.

EMPHASIS ON ENERGY

One of the issues facing many farmers today is the high cost of fuel, fertilizer and other energy-related inputs. In early December 2005, Secretary Johanns announced the USDA Energy Strategy, which is a concerted effort to look at both reducing demand for oil and natural gas and increasing supply through bio-fuels.

To assist in this effort, NRCS has developed the three-click Energy Estimator Tool, which helps farmers and ranchers determine how much they could save by switching from conventional tillage to no-till or another reduced tillage system.

I am pleased to announce that we recently released a Nitrogen Estimator Tool. Farmers can use this tool to better estimate how much nitrogen they are applying on the ground in order to better manage and minimize the amount of fertilizer applied. A large part of fertilizer costs relate to energy; this tool can help result in a net savings for farmers and ranchers that apply the technology.

Beyond these two tools, the Agency is also working on an Irrigation Estimator Tool to help show water savings garnered by switching to less intensive water conservation practices.

The Agency is working on an enhancement that would help farmers figure out how much they could save through improved irrigation systems. A second enhancement will enable producers to predict their savings by switching from fossil fuel fertilizer to animal manure.

WEB BASED SOIL SURVEY

One of the fundamental building blocks of conservation is knowledge. We know that farmers, ranchers, contractors, and homeowners need sound data about the land where they live. In continued efforts to make conservation data as transparent and available as possible, we launched a Web Soil Survey to make soils data available upon demand through the internet. Soil survey maps and related information are available online for more than 95 percent of the Nation's counties.

As we move forward in fiscal year 2006, there is some innovative technology that can help farmers and ranchers realize even bigger gains in their conservation efforts. We look forward to building upon the technology foundation achieved this year to implement even more voluntary conservation on America's private lands.

DISCRETIONARY FUNDING

The President's fiscal year 2007 budget request for NRCS reflects our ever-changing environment by providing resources for the ongoing mission of NRCS and ensuring that new opportunities are realized.

CONSERVATION OPERATIONS

The President's fiscal year 2007 budget request for Conservation Operations (CO) proposes a funding level of \$745 million, which includes \$634.3 million for Conservation Technical Assistance (CTA), \$89.3 million for Soil Surveys, \$10.6 million for Snow Surveys, and \$10.7 million for the 26 Plant Materials Centers. As in past requests, the Budget does not fund continuation of fiscal year 2006 congressional earmarks.

Mr. Chairman, while for years we have stated that CO is the heart of everything our Agency does, we need to do a better job describing the program's scope and effect. The Office of Management and Budget's Program Assessment Rating Tool (PART) process has been an important step in developing meaningful, quantifiable long-term performance measures. This review has helped the Agency streamline the program and focus on national priorities in fiscal year 2005 including, development of CNMPs that will help landowners meet regulatory challenges; reduction of non-point source pollution (nutrient, sediments, pesticides, or excess salinity); reduction of emissions, such as particulate matter, that contribute to air quality impairment; reduction of soil erosion from agricultural lands; and promotion of at-risk species habitat conservation.

Mr. Chairman, I am pleased to report that in fiscal year 2005, NRCS developed and implemented the first comprehensive CTA Program policy that improves transparency and clarifies the program's mission in an era of increased accountability. This year, NRCS revised the allocation process for the CTA Program to ensure that dollars go where the needs are greatest. This new methodology will provide a more transparent allocation that addresses resource issues. The new allocation formula also aligns with the new CTA policy and national priorities, and integrates program performance measures that were developed in the PART process.

In addition, this year we had 9 States participate in NRCS' first conservation planning sign-up. This is a pilot initiative that emphasizes the importance of conservation planning to help producers be better prepared to apply for conservation programs and to comply with Federal, State, tribal and local governmental regulations. The sign-up enabled landowners to plan more realistically to implement practices and apply for conservation programs in a more comprehensive approach.

All of these improvements will ensure that the most pressing conservation needs on America's private lands are addressed and will help NRCS meet its strategic planning objectives and improve accountability.

WATERSHED AND FLOOD PREVENTION OPERATIONS

Through the Watershed Protection and Flood Prevention Operations program that NRCS administers, our employees work in partnership with local leaders to improve the overall function and health of the Nation's watersheds. Each project developed under this program has a specific purpose and benefit; most address a primary purpose of flood control, while other project benefits include upland conservation practices that address a variety of natural resources needs such as water quality improvement, soil erosion control, animal waste management, irrigation, water management, water supply development, and recreation enhancement. However, the Administration proposes to terminate funding for WFPO in fiscal year 2007 for several reasons.

First, the decrease in funding in the WFPO will enable the Administration to focus limited resources to other higher priority conservation programs. It is expected that those high-priority watershed projects not yet completed will continue to receive strong local support from project sponsors, and that progress on them will continue to be made.

In 2004, the Administration compared the benefits and costs of three Federal flood damage reduction programs operated by NRCS, the Corps of Engineers, and the Federal Emergency Management Agency. The analysis found that of the three programs, the WFPO program provided the least net flood damage reduction benefits.

Mr. Chairman, I would also note that the amount of funding earmarked by Congress for this program nearly equaled the amount appropriated. This seriously hampers the Department's ability to effectively manage the program, and does not permit the Agency to prioritize projects based upon merit and local need.

WATERSHED SURVEYS AND PLANNING

The Watershed Surveys and Planning authorities are directed toward assessment of natural resource issues and development of watershed plans to conserve and utilize natural resources, solve local natural resource and related economic problems, avoid and mitigate hazards related to flooding, and provide for advanced planning for local resource development. This includes Floodplain Management Studies, Cooperative River Basin Studies, Flood Insurance Studies, Watershed Inventory and Analysis, and other types of studies, as well as Public Law 566 Watershed Plans.

With the elimination of Watershed and Flood Prevention Operations (WFPO), continuation of this planning component is no longer necessary. The fiscal year 2007 budget proposes to redirect this program's resources to other higher priority programs. It is expected that local sponsoring organizations, as well as State and local governments, will assume a more active role in identifying water resource problems and their solutions.

WATERSHED REHABILITATION

The Watershed Rehabilitation program addresses the problem of aging dams, especially those with a high risk for loss of life and property. Fifty-six dams have rehabilitation plans authorized and implementation of the plans is underway.

NRCS currently has 107 dams that have rehabilitation plans authorized, and the projects are completed or implementation of the plans is underway. This number adds to the 728 rehabilitation assessment reports already completed.

The Administration requests \$15.3 million to address critical dams with the greatest potential for damage to life and property.

RESOURCE CONSERVATION AND DEVELOPMENT PROGRAM

The purpose of the Resource Conservation and Development (RC&D) Program is to encourage and improve the capabilities of State, local units of government, and local nonprofit organizations in rural areas to plan, develop, and carry out programs for resource conservation and economic development. The program provides technical assistance to local communities to develop strategic plans that address their locally identified natural resource and economic development concerns. The budget proposes to reduce funding by \$25 million and consolidate the number of RC&D coordinators from 375 to about 150. The current number of authorized RC&D Areas nationwide will be maintained at the current 375. The responsibilities and duties

of the RC&D Coordinator position would be modified to provide more coordination and oversight duties instead of hands-on, day-to-day activities.

The reduction in funding for the RC&D Program will require that it be more focused on multi-county/parish planning, intergovernmental relations, serving as the Federal Government Representative on any Federal contracts with the RC&D Councils, and coordinating USDA assistance available toward implementation of RC&D Area Plans. The overall proposed budget for RC&D in fiscal year 2007 is \$25.9 million.

FARM BILL AUTHORIZED PROGRAMS

WETLANDS RESERVE PROGRAM

The Wetlands Reserve Program (WRP) is a voluntary program in which landowners are paid to retire cropland from agricultural production if those lands are restored to wetlands and protected, in most cases, with a long-term or permanent easement. Landowners receive fair market value for the land and are provided with cost-share assistance to cover the restoration expenses. The 2002 Farm Bill increased the program enrollment cap to 2,275,000 acres. WRP also is the principle USDA program to help meet the President's Wetland Initiative goal to create, restore and enhance 3 million acres of wetlands by 2009.

The President's 2007 budget proposes \$402 million for the WRP, an increase of \$153 million over the 2006 level. This will allow an annual enrollment of 250,000 acres; an increase of 100,000 acres, and will bring total cumulative enrollment to 2,225,700 acres.

ENVIRONMENTAL QUALITY INCENTIVES PROGRAM

The purpose of the Environmental Quality Incentives Program (EQIP) is to provide flexible technical and financial assistance to landowners that face serious natural resource challenges that impact soil, water, and related natural resources, including grazing lands, wetlands, and wildlife habitat management.

In fiscal year 2005, EQIP funding was almost \$1 billion. Over 49,000 contracts were written to assist landowners in treating an estimated 18.1 million acres.

Mr. Chairman, in addition, NRCS assumed all contracting and administration responsibilities for EQIP (including payments to participants) were previously made through the Farm Service Agency. All functions were carried out through a Web-based contracting software program called "ProTracts." This streamlining of procedures eliminated duplication of effort and resulted in real-time data.

Technical Service Providers (TSPs) were used to a greater extent last year and have more than doubled since fiscal year 2003. NRCS obligated over \$52 million in EQIP for TSPs to complement the conservation planning activities carried out under this program.

NRCS offered approximately \$20 million in Conservation Innovation Grants (CIG) to stimulate the development and adoption of new innovative conservation approaches while leveraging Federal investment. This program was authorized under EQIP in the 2002 Farm Bill and allows competitive grants to be awarded to eligible entities, including State and local agencies, non-governmental organizations, tribes or individuals to accelerate technology transfer and to develop promising new technologies to address some of our Nation's most pressing natural resource concerns.

The President's budget proposes a level of \$1 billion for EQIP, about the same level as in 2006.

GRASSLAND RESERVE PROGRAM

The 2002 Farm Bill authorized the Grassland Reserve Program (GRP) to assist landowners in restoring and protecting grassland by enrolling up to 2 million acres under easement or long-term rental agreements. The 2002 Farm Bill authorized \$254 million for implementation of this program during fiscal year 2003 through fiscal year 2007. No additional funding was requested in the President's budget for GRP in fiscal year 2007 as the program reached its statutory funding limit in fiscal year 2005.

CONSERVATION SECURITY PROGRAM

The Conservation Security Program (CSP), as authorized by the 2002 Farm Bill, is a voluntary program that provides financial and technical assistance for the conservation, protection, and improvement of natural resources on tribal and private working lands. The program provides payments for producers who practice good stewardship on their agricultural lands and incentives for those who want to do more.

In 2005, CSP was implemented in 220 watersheds nationwide, including Puerto Rico, and resulted in about 12,000 eligible applications covering more than 9 million acres of privately owned land. In fiscal year 2004, NRCS initiated the program in 18 watersheds within 22 States. In the 2-year period since, NRCS has rewarded nearly 14,800 stewards on 10.9 million acres of working agricultural land.

Through the CSP enhancement provisions and the application of intensive management measures, producers are achieving even greater environmental performance and additional benefits for society. Several new conservation activities will allow producers to further enhance their operation and the natural resources. For example, the energy component of CSP is rewarding farmers and ranchers for converting to renewable energy fuels such as soy bio-diesel and ethanol. Because CSP enhancements go beyond the minimum requirements, innovative producers are pushing conservation technology to produce even greater conservation benefits.

Recently, the Secretary announced the fiscal year 2006 sign-up for CSP which runs through March 31, 2006, in 60 watersheds across all 50 States, the Caribbean, and Guam. The fiscal year 2006 announcement marks the third CSP sign-up.

The President's fiscal year 2007 budget requests \$342.2 million in program funding an increase of \$83 million to continue expanding the program and rewarding excellent conservation stewards.

WILDLIFE HABITAT INCENTIVES PROGRAM

The Wildlife Habitat Incentives Program (WHIP) is a voluntary program that provides cost-sharing for landowners to apply an array of wildlife practices to develop habitats that will support upland wildlife, wetland wildlife, threatened and endangered species, fisheries, and other types of wildlife. The budget proposes a funding level for WHIP of \$55 million, with the additional \$10 million supporting the improvement and restoration of streams and rivers for migratory fish species. NRCS will prioritize WHIP resources to deliver community-driven, small dam and river barrier removal projects in coastal States to enhance populations of key migratory fish species.

FARM AND RANCH LANDS PROTECTION PROGRAM

Through the Farm and Ranch Lands Protection Program (FRPP), the Federal Government establishes partnerships with State, local or tribal government entities or nonprofit organizations to share the costs of acquiring conservation easements or other interests to limit conversion of agricultural lands to non-agricultural uses. FRPP acquires perpetual conservation easements on a voluntary basis on lands with prime, unique, or other productive soil that presents the most social, economic, and environmental benefits. FRPP provides matching funds of no more than 50 percent of the purchase price for the acquired easements. The budget proposes a level of \$50 million for FRPP in fiscal year 2007.

EMERGENCY RESPONSE TO HURRICANE KATRINA

In addition Mr. Chairman, the NRCS helped communities across the Gulf Coast region recover from the devastation caused by the 2005 hurricanes through the Emergency Watershed Protection (EWP) Program. The purpose of the EWP program is to undertake emergency measures, including the purchase of floodplain easements, for runoff retardation and soil erosion prevention to safeguard lives and property from natural disasters. The typical process for delivery of this program starts with the local sponsor requesting assistance for a disaster recovery effort. NRCS then conducts a damage assessment to identify if the project is eligible and develops an estimated cost. Typical work under this program consists of debris removal from clogged streams caused by flooding; installing conservation measures, like reseeding native grasses to prevent soil erosion on hillsides after a fire; or replanting and reshaping streambanks due to erosion caused by flooding. At the request of communities across the Gulf Coast region recovering from Hurricanes Katrina and Rita, NRCS completed nearly \$23 million in recovery work under the EWP Program immediately following the damage. In addition, the fiscal year 2006 Supplemental Appropriations provided \$300 million for EWP hurricane recovery efforts.

As part of USDA's hurricane relief efforts, NRCS assisted hurricane-impacted States by providing maps used by first responders to assess ground conditions during the search and rescue of survivors. Current satellite and airborne imagery is used to locate possible dangers, such as fires, and the safest route to rescue survivors. Soil survey data layers are used to locate the best areas for animal debris disposal and burial that will not endanger water sources. NRCS continues to work with other USDA agencies, the Federal Emergency Management Agency (FEMA),

and State emergency agencies to assist with post-disaster cleanup and restoration projects in Louisiana, Florida, Mississippi, Texas, and Alabama.

The President recently made a request for \$10 million of additional funding under WFPO for the EWP Program for the purchase of easements on floodplain lands in disaster areas affected by Hurricane Katrina and other hurricanes of the 2005 season. Under the EWP Floodplain Easement Program, a landowner voluntarily sells a permanent conservation easement to NRCS and, in return for a payment for the agricultural value of the parcel, foregoes future cropping and development on the land. NRCS restores the natural features and characteristics of the floodplain to generate public benefits, such as increased flood protection and reduced need for future public disaster assistance.

CONCLUSION

As we look ahead, it is clear that the challenges before us will require the dedication of all available resources—the skills and expertise of the NRCS staff, the contributions of volunteers, and continued collaboration with partners and TSPs.

I am proud of the work and the conservation ethic our people exhibit day in and day out as they go about the job of getting conservation on the ground. Through Cooperative Conservation, we have achieved a great deal of success. We are sharply focusing our efforts and will work together with our partners to consolidate our gains this coming year. I look forward to working with you, as we move ahead in this endeavor.

This concludes my statement. I will be glad to answer any questions that Members of the Subcommittee might have.

Senator BENNETT.

Thank you.

Mr. Bost.

STATEMENT OF ERIC M. BOST

Mr. BOST. Mr. Chairman and Senator Kohl, I thank you for the opportunity to present the administration's fiscal year 2007 budget for Food, Nutrition, and Consumer Services.

However, before I do that, there are a couple of accomplishments I would like to note that I think are very important. We continue to ensure programmatic success to all of those that are eligible and in need of benefits. Most recently, 26 million people are participating in our Food Stamp Program, 29 million children are participating in our National School Lunch Program every day, and we are serving approximately 8 million children, women, and infants in our WIC Program.

In addition to that, last year we released "My Pyramid," and we are up to 1.5 billion hits to that site. In addition, we released "Pyramid For Children," and we are over 500 million hits.

The Chairman made reference to this, but I also want to note the outstanding work done by the FNS staff and our partners; APHSA, America's Second Harvest, and FRAC in terms of addressing the needs of those persons in our Gulf that were affected by the hurricanes.

As a result of FNS's efforts, we provided over \$900 million in food stamp benefits to over 1.9 million affected households. We also provided over 22 million pounds of baby food, formula, meats, and pasta products to persons in need. We were on the ground and operating 1 day after the hurricane hit, and it is something that we are very proud of.

In terms of the fiscal year budget for 2007, we are requesting funds in the amount of \$57 billion. This will allow us to meet the needs of approximately 25.9 million persons in our Food Stamp Program, monthly participation in our WIC Program in the amount

of 8.22 million persons, serve 30.9 million children in our National School Lunch Program, and serve 10.3 million students in our School Breakfast Program.

If our estimates in terms of program participation or costs are too low, we continue to request \$3 billion in contingency funds for the Food Stamp Program, and for the first time, are requesting \$300 million for our Child Nutrition Programs.

When you put together a budget, you are not able to do all of the things you might want to do. As a result, we had to make some tough choices and decisions. That is why we are requesting the ability to phase out the Commodity Supplemental Food Program (CSFP) program for a couple of reasons.

First and foremost, CSFP is only operating in limited areas in 32 States, 2 Indian reservations, and the District of Columbia. We believe that we can serve these affected persons in other nutrition assistance programs.

The other thing that I would say that we also believe is very important is the fact that the error rate in the Food Stamp Program is at 5.88, which is the lowest that it has ever been in the history of the Food Stamp Program. It is something we are also very, very proud of.

With that in mind, we are requesting additional resources to be able to maintain that level of efficiency in our program.

This budget also requests \$675 million to continue in our efforts to move Americans toward a healthier lifestyle. Approximately 62 percent of all Americans in this country are overweight. Thirty percent of us are obese. Twenty-two percent of all adolescents are overweight. We have seen a doubling in the rate of Type 2 diabetes among children.

PREPARED STATEMENTS

According to the numbers at the Centers for Disease Control and Prevention (CDC), we spend approximately \$123 billion in health-related costs because we eat too much and exercise too little.

I am really pleased to be able to present this budget request and am more than happy to answer any questions that you may have. [The statements follow:]

PREPARED STATEMENT OF ERIC M. BOST

Thank you, Mr. Chairman, and members of the subcommittee for this opportunity to present the Administration's fiscal year 2007 budget request for USDA's Food, Nutrition, and Consumer Services (FNCS).

I am here today to discuss with you the President's budget request which demonstrates the Administration's steadfast commitment to our Nation's nutrition assistance programs. These programs ensure a nutrition safety net for the Nation's children, elderly and low-income households and, in conjunction with the Center for Nutrition Policy and Promotion, inform all Americans about the importance of good nutrition and physical activity. I am proud of our accomplishments and honored to work for a President who provides clear and continued support for these programs that protect our children and low-income households from hunger, and help to prevent the health risks associated with poor nutrition and physical inactivity for all our citizens.

Our Federal nutrition assistance programs are there to meet the needs of Americans, not just in their everyday life, but also in times of disaster. I am so proud of my staff's efforts in the aftermath of the recent hurricanes. When the victims of Hurricanes Katrina, Rita and Wilma needed our programs, we responded immediately. Cutting through red tape, simplifying requirements, trucking and airlifting food, expediting services, working around the clock, our staff worked side by side

with State and local staff and volunteers to help the evacuees get the food they needed. We even negotiated with other States to borrow eligibility workers to help meet high program demand within disaster States. Over \$900 million in Food Stamp benefits were provided to over 1.9 million affected households. For situations where food stamps could not meet the needs, we worked in cooperation with the Agricultural Marketing Service, made commodity purchases; sped up planned deliveries already in the pipeline; and diverted product from other parts of the country to move commodities where they were most needed. In total, we provided over 22 million pounds of baby food, formula, meats, pasta products, fruits and vegetables for congregate feeding and also for distribution to households for home consumption.

I am proud to report to you today that the Federal nutrition assistance programs staff, at every level, succeeded in providing a timely and robust nutrition response to these devastating storms. This response underscores the value and high level of performance of these programs and the people at the Federal, State and local level who make them work across the country, every day. These programs truly operated as a safety net in the days and months immediately following these disasters. The President's budget is committed to keep these vital programs strong.

Mr. Chairman, this budget, more than any other I have presented to you, reflects the fundamental challenge of this Administration: ensuring that the needs of all eligible persons seeking to participate in our programs are met while at the same time protecting the interests of current and future generations who must accept the consequence, both economic and social, of the unsustainable levels of deficit spending and Federal debt. Not all of our existing programs are funded in this request, but we have been very careful to make certain to provide access to nutrition assistance programs for all eligible populations we serve.

We have made tough choices and developed a budget request that makes every dollar produce maximum benefit for the vulnerable populations served by our programs and for the Nation as a whole. This is the first budget request I have presented to you that includes an overall decrease in resources requested. That decrease, however, in no way represents a wavering in the Administration's demonstrated, consistent support for the Nation's nutrition safety net. Funds requested within the budget fully support our best estimates of demand for program services and cost for the major nutrition assistance programs in fiscal year 2007.

- This includes a monthly average participation of 25.9 million persons in the Food Stamp Program. This represents a decrease of approximately 1 million from fiscal year 2006, the first projected decrease in participation in 5 years. This reduction results, in large part, from sustained strong economic performance and the transition of Gulf Coast disaster participants to self-sufficiency.

- Participation in the WIC program is expected to rise slightly in fiscal year 2007 from 8.17 million participants a month to 8.22 million.

- In the School Meals Programs, daily meal service to our youth will reach 30.9 million students in the National School Lunch Program and 10.3 million students in the School Breakfast Program.

Three principle objectives guide our administration of these programs, (1) to ensure that low-income people have access to food by ensuring sufficient funding for the major nutrition assistance programs; (2) to promote healthful diets and active lifestyles by making nutrition education an integral part of the nutrition assistance programs; and (3) to manage prudently and efficiently so that every dollar invested has maximum benefit for those truly in need. The President's budget request for fiscal year 2007, like all prior requests submitted by this Administration, reflects these prime objectives.

ENSURING LOW INCOME PERSONS HAVE ACCESS TO FOOD

At its most basic level, ensuring program access must begin with making certain that sufficient resources are available so all who are eligible and in need can have ready access to benefits. The President's fiscal year 2007 budget requests funds to support anticipated participation in the Food Stamp Program, the Child Nutrition Programs and the WIC Program. The Administration's strong commitment to adequately fund these critical programs acknowledges the inherent difficulties in anticipating future demand for program services, and provides for contingency funding should program costs exceed our estimates. Should our estimates of program participation or costs prove too low, we have continued to protect program access for all eligible persons, a key objective of the President and myself, through properly funded contingency reserves. In the Food Stamp Program we have continued the funding for the contingency reserve of \$3 billion. These funds are especially important as the program transitions out of a period of growth and begins to reflect the benefits of strong economic performance the Nation has been enjoying. In the WIC Program,

approximately \$125 million remains available to ensure that the essential food, nutrition education, and health care referral services remain available to all who need them.

For the first time, the President has proposed a contingency reserve for the Child Nutrition Programs. The reserve, proposed at \$300 million, will ensure that sufficient resources are available to fully fund the mandatory entitlement payments to our State and local partners who make certain that nutritious, appealing meals are available to all our children in schools and many childcare settings.

PROMOTING HEALTHFUL DIETS AND ACTIVE LIFESTYLES

Our programs provide nutrition assistance, including both access to healthy food and nutrition education and promotion to support and encourage a healthy lifestyle. With this nutrition mission in mind, and the Center for Nutrition Policy and Promotion's (CNPP) focus on the broader population, we play a critical role in the integrated Federal response to the growing public health threat posed by overweight and obesity which affects well over half of adult Americans.

The Federal nutrition assistance programs play a critical role in combating this epidemic by providing not just access to healthful food, but also promoting better health through nutrition education and promotion of physical activity. These FNS program services, along with the work of the CNPP to improve the diets of all Americans, are a key component of the President's HealthierUS Initiative. I believe the American public is served well by USDA's contributions to addressing the critical nutrition- and health-related issues facing us today. This budget request provides approximately \$675 million in resources tied specifically to improving the diets, nutrition knowledge and behavior and promoting the importance of physical activity among the people we serve.

The CNPP continues to have an integral role in the development and promotion of updated dietary guidance and nutrition education. The Dietary Guidelines for Americans (Guidelines), published jointly every 5 years by the USDA and the U.S. Department of Human Services (HHS), is the cornerstone of Federal nutrition policy, allowing the Federal Government to speak with one voice. This request features an increase of \$2 million to support the efforts of the CNPP to maintain and enhance the extremely well-received food guidance system, MyPyramid.gov, which is one of the most frequently visited of all Federal websites for the public. In addition, base funding will allow CNPP to begin preparations for the 2010 update to the Dietary Guidelines for Americans for which USDA is the lead Federal agency.

MANAGING PRUDENTLY AND EFFICIENTLY

With this budget request, we are asking the Nation to entrust us with over \$57 billion of public resources. We are keenly aware of the immense responsibility this represents. To maintain the high level of public trust that we have earned as good stewards of the resources we manage, we will continue our ongoing commitment to program integrity as an essential part of our mission to help the vulnerable people these programs are intended to serve.

This is not a new commitment. As I noted earlier, in fiscal year 2004, the most recent year for which data is available, the Food Stamp Program achieved a record high payment accuracy rate of 94.1 percent, up 0.7 percent points from the fiscal year 2003 level of 93.4 percent. Our budget request included an increase of \$4 million in the Nutrition Program Administration account focused on sustaining the momentum we have achieved to improve the Food Stamp payment accuracy and overall program integrity.

We have proposed elimination of restrictive language that prohibits the use of funds appropriated in the program accounts for the purpose of studies and evaluations. This proviso has limited our capacity to support and assess program innovations, many of which are initiated by our State and local partners. Lifting this restriction will help us to document results more effectively, and contribute to better program management.

We also continue to develop strategies to improve the accuracy of eligibility determinations in our school meals programs—an issue of mutual concern to all those that care about these programs. The Federal administrative resources provided for in this budget will allow us to advance our close work with our State and local program partners on both of these essential integrity initiatives—continuing both our successes in the Food Stamp Program and our intensified efforts in school meals.

In the remainder of my remarks, I'd like to discuss in greater detail a few of the key proposals contained in the President's fiscal year 2007 request.

FOOD STAMP PROGRAM

The Food Stamp Program is fully funded in the President's budget at \$37.9 billion. This will support an anticipated average monthly participation of 25.9 million persons, about 1 million persons lower than expected in fiscal year 2006. This displays a key strength of the Food Stamp Program: its ability to respond dynamically to the changing levels of need within American society. We responded to the hurricanes in the Gulf Coast this past fall, providing benefits to 1.9 million affected households. Elsewhere, the program is now responding to the strength of the economy, and is no longer growing as it did in recent years.

Should our estimate of fiscal year 2007 program participation or cost prove to be too low, the program continues to be protected by a contingency reserve, proposed at \$3 billion in new budget authority for fiscal year 2007. As an alternative to the contingency reserve, the President's request offers a proposal of indefinite authority. This form of appropriation would eliminate the need for an annual contingency reserve appropriation, while at the same time guaranteeing that sufficient funds will be available to meet the entitlement components of the program.

We continue to aggressively promote the message that Food Stamps Make America Stronger, in the sense that the program puts healthy food on the tables of low-income families and has a positive effect on local economies. The President's budget features proposals targeted at ensuring those in need can access benefits without sacrificing their retirement savings, making certain that all persons in need face the same program eligibility requirements regardless of where they live, and improving the ease and accuracy of the certification process so each household receives the proper benefit level. Given tough budget constraints, the food stamp proposals focus on those who are most needy.

The President's budget proposes to expand and make mandatory the exclusion, first made a State option for 401(k) and Keogh accounts in the 2002 Farm Bill, of the value of tax-preferred retirement accounts from the asset test. This exclusion strengthens retirement security policy and enables low-income people to get nutrition assistance without depleting their retirement savings. It also simplifies food stamp resource policy and makes it more equitable because under current law some retirement accounts are excluded and some are included. This proposal supports the President's Ownership Society Initiative, by increasing the ability of low-income people to save for retirement. It is expected, when fully implemented, to add approximately 100,000 persons to the program and to increase benefits by \$592 million over 5 years. The majority of the new participants will be workers and their families, most with children. On average, each new household will get \$122 in benefits each month.

While we seek to encourage all who are eligible and in need to participate in the program, we feel strongly we must also ensure that access to the program is administered in an equitable manner across all States. For this reason we have once again included a proposal to eliminate categorical food stamp eligibility for Temporary Assistance for Needy Families (TANF) participants who receive only services and not cash benefits. The people affected by this proposal have income or assets that exceed the program's regular limits. When fully implemented in fiscal year 2008, this change is estimated to affect approximately 300,000 individuals and save \$658 million over 5 years. The President's proposal restores equity among participants and ensures that food stamp benefits go to individuals with the most need while retaining categorical eligibility for the much larger number of recipients who receive cash assistance through TANF, Supplemental Security Income and General Assistance.

Also included in the budget request is a proposal to add the Food Stamp Program to the list of programs for which States may access the National Directory of New Hires. Access to this national repository of employment and unemployment insurance data will enhance States' ability to quickly and accurately make eligibility and benefit level determinations, improving program integrity. This proposal is expected to produce a net savings of \$1 million annually beginning in fiscal year 2008.

Finally, the budget request reflects our continued commitment in two important areas. First the President's request includes a proposal to exclude special military pay received by members of the armed forces deployed in combat zones when determining Food Stamp Program eligibility and benefit amounts for their families back home. This proposal has been provided for in appropriations law in previous years, where it is requested again. Second, the Administration remains committed to working with Congress on a name change for the program. The President's request continues the process that began in 2006 to gather information related to a proposed name change for Congressional consideration.

CHILD NUTRITION PROGRAMS

A base increase of \$685 million is requested to fully fund the Child Nutrition Programs including our three largest programs serving children, the National School Lunch Program, the School Breakfast Program, and Child and Adult Care Food Program. This increase will support the continuing growth in meal service in these programs with more than 9 billion appealing, nutritious meals provided to all of our children in schools and many childcare settings. Since fiscal year 2000, average daily participation in the National School Lunch Program has climbed from 27.2 million to an estimated 30.9 million in fiscal year 2007. In the School Breakfast Program, 10.3 million children will be served each day in fiscal year 2007, up from 7.8 million in fiscal year 2000.

Should this increase not prove sufficient to fully cover program costs, the budget request proposes an additional increase of \$300 million to, for the first time, fund a contingency reserve for the Child Nutrition Programs. This reserve will serve to ensure access to these important services to all children and make certain that funds are available to meet our mandatory obligations to our State and local partners in the administration of the Child Nutrition Programs.

Improving both the nutrition of children and their awareness of the role that healthy food choices and physical activity play in promoting overall well being are core goals of these programs. The Food and Nutrition Service is reviewing the new Dietary Guidelines, as well as the Dietary Reference Intakes, and working to incorporate their recommendations into our nutrient standards and meal patterns. Additional resources requested under the Nutrition Program Administration for Cross-Program Nutrition Education will help us to incorporate family-based approaches to nutrition education into the Child Nutrition Programs and to leverage those messages and materials to improve nutrition education and promote smart food choices and physical activity across all of the nutrition assistance programs. We also are continuing efforts to promote healthy behaviors through support for implementation of local school-based wellness programs required by the Child Nutrition and WIC Reauthorization Act of 2004.

WIC

In fiscal year 2007, the President's budget request of \$5.2 billion anticipates supporting critical services to a monthly average participation of 8.2 million women, infants and children through the Special Supplemental Nutrition Program for Women, Infants and Children (WIC). While this request is a small decrease from the enacted fiscal year 2006 level, in combination with available prior-year resources it will support a slight increase from anticipated fiscal year 2006 participation levels. The \$125 million contingency reserve appropriated in fiscal year 2003 and replenished in fiscal year 2005, remains available to the program should participation or food costs exceed our projections. We currently do not anticipate the need to access the contingency reserve in either fiscal year 2006 or fiscal year 2007.

In all of the Federal nutrition assistance programs, the Administration is committed to ensuring that benefits are targeted to those most in need. WIC applicants can currently receive adjunctive or automatic eligibility for benefits based on their participation in other means-tested programs such as the Food Stamp Program and Medicaid. However, in some States, individuals with incomes higher than those established for participation for WIC are eligible for Medicaid. Included in the budget request is a proposal to limit adjunctive eligibility based on participation in Medicaid to those individuals whose incomes are below 250 percent of Federal poverty guidelines.

The budget also reflects the Administration's dual commitment to both support the WIC Program and to control discretionary spending growth. We are committed to working with our State partners to manage program costs to ensure future access to this critical program for all who are eligible and seek its services. The President's budget contains a two-part proposal that will allow us to reduce Federal expenditures on Nutrition Services and Administration (NSA) with the participation of the States. WIC is currently one of the few Federal programs that do not require matching funds for administration funds. The President's budget proposes a 20 percent State matching on NSA funds that would take effect in fiscal year 2008. The 1-year delay in implementation is essential so that the States can incorporate this new requirement into their fiscal plans. As a transitional step, we are renewing our proposal to cap the level of NSA funding at 25 percent of the total level grants to States in fiscal year 2007. We will also continue our long successful partnership with the States in containing food package cost growth through sharing of best practices and providing technical assistance in the implementation of food cost containment strategies.

COMMODITY SUPPLEMENTAL FOOD PROGRAM (CSFP)

The President's fiscal year 2007 budget request does not fund CSFP. We face difficult challenges and decisions with regard to discretionary budget resources and have chosen to not request funding for this program for several reasons. First, CSFP is not available in all States. It currently operates in limited areas of 32 States, two Indian reservations, and the District of Columbia. Second, its benefits, to a great extent, overlap those available through other nutrition assistance programs. Finally, we believe our limited resources are best focused on those programs that are universally available to serve these needy populations. The priority of the Administration is to ensure the continued integrity of the national nutrition assistance safety net, including the Food Stamp Program and WIC. However, we want to acknowledge our CSFP partners at the State and local level who have worked on behalf of this program.

USDA will work closely with CSFP State agencies to ensure that any negative effects on program participants are minimized, and that they are transitioned as rapidly as possible to other nutrition assistance programs for which they are eligible. The budget request includes funds to support the transition of CSFP participants to nationally available FNS nutrition assistance programs such as WIC and FSP. The budget requests \$2 million to provide outreach and to assist individuals to enroll in the Food Stamp Program. Elderly participants who are not already receiving food stamp benefits will be eligible to receive a transitional benefit worth \$20 per month ending in the first month following enrollment in the Food Stamp Program under normal program rules, or 6 months, whichever occurs first. CSFP women, infants, and children participants who are eligible for WIC benefits will be referred to that program. Commodities obtained under agriculture support programs will be redistributed for use in other nutrition assistance programs, such as TEFAP.

THE EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

TEFAP plays a critical supporting role for the Nation's food banks. This support takes the form of both commodities for distribution and administrative funding for States' commodity storage and distribution costs. Much of this funding flows from the States to faith-based organizations, a cornerstone of the food bank community. The President's budget requests the fully authorized level of \$140 million to support the purchase of commodities for TEFAP. Additional food resources become available through the donation of surplus commodities from USDA's market support activities. State and local administrative costs, which support the food bank community, are funded at \$49.5 million in the President's request.

NUTRITION PROGRAMS ADMINISTRATION

We are requesting \$160.4 million in our Nutrition Programs Administration account, which reflects an increase of \$18.6 million in our Federal administrative funding. This account supports Federal management and oversight of a portfolio of program resources totaling \$57 billion, almost 60 percent of the USDA budget.

A key component of this year's request is a \$4 million increase to support additional program integrity and accountability efforts in the Food Stamp Program. These resources would support up to 40 additional staff dedicated to continuing our strong record of results in improving payment accuracy and improving our ability to provide oversight and technical assistance to our State partners. While I am very proud of our accomplishments in program integrity, maintaining those gains and achieving further improvement in payment accuracy is a daunting challenge. This request represents a small investment that will pay big dividends in our continuing efforts to make certain we get the right benefits to the right people.

The budget also requests an increase of \$2 million to support the efforts of the Center for Nutrition Policy and Promotion. These resources will continue the Center's work on MyPyramid and will support up to an additional 4 staff years dedicated to this initiative.

Also included in the President's request is \$6 million to support important program assessment and evaluation activities examining program integrity issues and ways to improve the delivery of benefits and services with the Food Stamp Program.

Other increases contained in the budget request include the \$3 million for Cross-Program Nutrition Education efforts, \$3.5 million to support FNCS' participation in the OMB's government-wide initiative to modernize and better integrate financial management systems, and \$2.8 million to support base pay cost increases.

The increases requested within this budget are essential to ensuring that FNCS can continue to successfully execute its basic program administration, oversight and fiscal stewardship duties. We understand the difficult budgetary circumstances the

Federal Government now faces and support and have participated in the tough choices that must be made. However, it is essential that FNCS address the serious challenge posed by both the accumulated effect of over a decade of staffing reductions and the loss of critical skills and experience inherent in the impending retirement of close to 30 percent of its workforce over the next 5 years.

I have begun that process by improving the management of human capital planning processes, strengthening services provided to employees, and implementing programs designed to improve the efficiency, diversity, and competency of the work force. With just nominal increases for basic program administration in most years, FNCS has reduced its Federal staffing levels significantly over time. We have compensated for these changes by working smarter—re-examining our processes, building strong partnerships with the State and local entities which administer our programs, and taking advantage of technological innovations. We are extremely proud of what we have accomplished and continue to seek new ways to meet the challenges before us. However our ability to continue to reliably meet these challenges will be in question if staffing levels continue to decline.

Mr. Chairman, I appreciate the opportunity to present to you this budget and what it means for the millions of Americans that count on us for nutrition assistance. I would be happy to answer any questions you may have.

PREPARED STATEMENT OF ERIC J. HENTGES, EXECUTIVE DIRECTOR, CENTER FOR
NUTRITION POLICY AND PROMOTION

Thank you, Mr. Chairman, and members of the Subcommittee, for allowing me this opportunity to present testimony in support of the Administration's budget for fiscal year 2007.

With the Nation facing significant public health issues related to the quality of the American diet, I believe that the outcome-based efforts of the Center for Nutrition Policy and Promotion are key to promoting more healthful eating behaviors and lifestyles across the Nation. Working from its mission to improve the health of Americans by developing and promoting dietary guidance that links scientific research to the nutrition needs of consumers, the Center for Nutrition Policy and Promotion has a critical role in how USDA meets its strategic goal to improve the Nation's nutrition and health.

TRENDS CONTINUE TO SHOW NEED FOR REVISED NUTRITION GUIDANCE AND
EDUCATIONAL TOOLS

Recent studies of America's dietary and physical activity behaviors reveal disturbing trends. First, a combination of poor diet and sedentary lifestyle not only undermines quality of life and productivity, but it also contributes to the preventable causes of deaths each year in the United States.

Second, specific diseases and conditions, such as cardiovascular disease, hypertension, overweight and obesity, and osteoporosis, are clearly linked to a poor diet. Recent statistics are staggering: 65 percent of adults (ages 20 to 74) are overweight, with 31 percent among this group classified as obese. Children and adolescents have not escaped this unhealthy outcome: among 6- to 19-year-olds, 16 percent (over 9 million) are overweight—triple what the proportion was in 1980. Another 15 percent are at risk of becoming overweight. With statistics showing an increase in overweight and obesity and estimates indicating that obesity-attributable medical expenditures in the United States reached \$75 billion in 2003, the health of Americans is a serious concern that must be addressed.

Third, the lack of physical activity has been associated with a number of conditions, including diabetes, overweight and obesity, cardiovascular disease, and certain cancers. Supporting evidence indicates less than half (46 percent) of the U.S. population meets the recommended level of physical activity. USDA's involvement is critical in helping to stem and eventually reverse some of these disturbing trends.

DIETARY GUIDELINES FOR AMERICANS ESTABLISH FEDERAL NUTRITION POLICY

In conjunction with the Department of Health and Human Services, USDA released the sixth edition of the Dietary Guidelines for Americans on January 12, 2005. This science-based blueprint for promoting good nutrition and health encourages Americans to "(1) Make smart choices from every food group, (2) Find your balance between food and physical activity, and (3) Get the most nutrition out of your calories."

The Guidelines, the basis for Federal nutrition policy, provide advice for healthy Americans, ages 2 years and older, about food choices that promote health and pre-

vent disease. These Guidelines not only form Federal nutrition policy, but they also set standards for the nutrition assistance programs, guide nutrition research and education efforts, and are the basis for USDA nutrition promotion activities.

As the lead Federal agency in administration of the 2010 Guidelines, USDA's Center for Nutrition Policy and Promotion has already begun laying the foundations—planning the management strategies that USDA will use to lead in inter-agency coordination and putting into place an evidence-based system. An evidence-based system will provide a framework or protocol for comprehensive analysis and synthesis of scientific literature, ranking its strengths according to established criteria. In developing nutrition guidance, this system will enable government decision makers to make the best policy supported by the strongest scientific evidence available, giving both the Executive and Legislative branches of government along with the scientific community and the general public a continued confidence in nutrition policies, guidelines and recommendations that are being developed and promoted.

MYPYRAMID SERVES AS PREMIER TEACHING TOOL

MyPyramid, based on the 2005 Dietary Guidelines for Americans, supports two pillars of the President's HealthierUS Initiative: to "Eat a Nutritious Diet" and to "Be Physically Active Every Day." MyPyramid is an individualized, interactive tool to help Americans build the Guidelines into their daily lives. Included in the MyPyramid webpage are the MyPyramid Plan and MyPyramid Tracker. MyPyramid Plan helps consumers find the types and amounts of food they should eat to meet nutrient requirements. MyPyramid Tracker, which has nearly 1 million registered users to date, is for consumers who want a detailed assessment and analysis of their current eating and physical activity behaviors; and it provides guidance on how to improve those behaviors. Since its launch in April 2005, MyPyramid.gov has received over 1.5 billion hits.

USDA also launched MyPyramid for Kids, a child-friendly version of MyPyramid targeted to schoolchildren. This tool is designed to encourage children to make smart food choices each day. An interactive learning computer game; lesson plans for educators; colorful posters and flyers; and other resources are available to help children make those choices. To reach an even broader audience, Spanish language versions of MyPyramid (MiPirámide) and MyPyramid for Kids (MiPirámide para Niños) have been developed. These materials have been distributed to tens of thousands of schools across America and are also available online.

The President's budget requests an increase of \$1.98 million for CNPP. These funds will support maintenance and enhancements to MyPyramid, improvements in customer support and outreach capabilities. This budget will help USDA determine whether the use of the Dietary Guidelines and MyPyramid by the American public, teachers, students, and health professionals ultimately improves the American diet.

Planned activities directly related to MyPyramid include the procurement of ongoing web hosting and maintenance of MyPyramid.gov and MyPyramid Tracker, which assist the public in monitoring and developing individualized healthy eating plans. In addition, this funding will provide for the maintenance and upgrading of related hardware and software; increased operational costs realized from spikes in the usage of the website; developmental costs associated with improvements to MyPyramid Tracker; and acquisition of new food and nutrient composition data bases and integration of the Healthy Eating Index into MyPyramid Tracker.

With this budget, CNPP will procure the development and implementation of a continual evaluation plan for MyPyramid to ascertain its usefulness by the American consumer. Additionally, CNPP plans to enhance the MyPyramid.gov website with interactive capabilities to encourage behavior change that promotes healthful diets across a broad spectrum of American society. This would include a meal planning feature which is currently missing, a recipe file feature, and a shopping list feature all of which have been requested by the public and the professional nutrition community.

With thousands of emails, written correspondence, telephone inquiries and hotline calls that have resulted from the overwhelming success of the Dietary Guidelines for Americans and MyPyramid.gov, CNPP also intends to use appropriated resources toward four additional staff years devoted exclusively to assisting the public in the areas of information dissemination and improvement of the CNPP, Dietary Guidelines and MyPyramid websites. These additional staff years would allow CNPP to provide customer support in timely manner; enhance the outreach and promotion of MyPyramid.gov; and support USDA's Nutrition.gov website and USDA's on-line "Ask the Expert."

With your support, we look forward to continuing to build, enhance, and better promote personalized and individualized nutrition guidance tools—such as

MyPyramid.gov—reaching millions of Americans daily. Your support will also help us improve customer support and outreach as well as set the foundation for future development of scientific nutrition policy, which is vital to addressing the growing problems of overweight and obesity and the related health challenges in America.

I thank the Committee for the opportunity to present this written testimony.

PREPARED STATEMENT OF ROBERTO SALAZAR, ADMINISTRATOR, FOOD AND NUTRITION SERVICE

Thank you, Mr. Chairman, and members of the Subcommittee for allowing me this opportunity to present testimony in support of the fiscal year 2007 budget request for the Food and Nutrition Service (FNS).

FNS is the agency charged with administering the fifteen Federal nutrition assistance programs which create the Nation's nutrition safety net and providing Federal leadership in America's ongoing struggle against hunger and poor nutrition. Our stated mission is to increase food security, reduce hunger and improve health outcomes in partnership with cooperating organizations by providing children and low-income people access to nutritious food and nutrition education in a manner that inspires public confidence and supports American agriculture. The budget request clearly demonstrates the President's continuing commitment to this mission and our programs as well as strengthens the Federal nutrition assistance safety net in a time of competing priorities and limited resources. Balancing program access, good nutrition, and program integrity, this budget makes tough choices to meet our key commitments:

- To ensure that low-income people have access to food by ensuring sufficient funding for the major nutrition assistance programs.
- To promote healthful diets and active lifestyles by making nutrition education an integral part of nutrition assistance programs.
- To manage prudently and efficiently so that every dollar invested has the maximum positive benefit for those truly in need.

A request of \$57 billion in new budget authority is contained within the fiscal year 2007 budget to fulfill this mission through the FNS nutrition assistance programs. These critical programs touch the lives of more than 1 in 5 Americans over the course of a year. Programs funded within this budget request include the National School Lunch Program (NSLP), which will provide nutritious school lunches to 30.9 million children each school day, the WIC Program, which will assist with the nutrition and health care needs of 8.2 million at risk pregnant and postpartum women, infants and children each month, and the Food Stamp Program (FSP), which will ensure access to a nutritious diet each month for an estimated 25.9 million people. The remaining programs include the School Breakfast Program (SBP), the Summer Food Service Program (SFSP), the Child and Adult Care Food Program (CACFP), The Emergency Food Assistance Program (TEFAP), the Food Distribution Program on Indian Reservations (FDPIR) and the Farmers' Market Programs.

We are proposing, with this budget request, the elimination of the Commodity Supplemental Food Program (CSFP). The priority of the Administration, as reflected in the President's budget request, is to ensure the continued integrity of the national nutrition assistance safety net. CSFP is only available in limited areas. It operates in parts of 32 States, two Indian Tribal Organizations, and the District of Columbia. Its benefits and target populations to a great extent, overlap with two of the largest nationwide Federal nutrition assistance programs—Food Stamps and WIC. FNS seeks to serve the children and low-income households of this Nation. We believe the President's budget request, allows us to focus scarce resources on addressing the diverse ways which hunger and nutrition-related problems present themselves through the core programs of the nutrition safety net.

The resources we are here to discuss represent an investment in the health, self-sufficiency, and productivity of Americans who, at times, find themselves in need of nutrition assistance. Under Secretary Bost, in his testimony, has outlined the three critical challenges which the Food, Nutrition and Consumer Services team has focused on under his leadership: promoting access and awareness of the Federal nutrition assistance programs; addressing the growing epidemic of obesity; and, improving the integrity with which our programs are administered. In addition to these fundamental priorities specific to our mission, the President's Management Agenda provides an ambitious agenda for management improvement across the Federal Government as a whole. I would like to report on our efforts to address three specific items under this agenda: reducing improper payments and enhancing the efficiency of program delivery, building partnerships with faith and community-

based organizations, and systematically planning for the human capital challenges facing all of the Federal service.

THE CHALLENGE OF IMPROPER PAYMENTS

Good financial management is at the center of the President's Management Agenda. As with any Federal program, the nutrition assistance programs require sustained attention to program integrity. We cannot sustain these programs over the long term without continued public trust in our ability to manage them effectively. Program integrity is as fundamental to our mission as program access or healthy eating. Our efforts to minimize improper program payments focus on (1) working closely with States to improve food stamp payment accuracy; (2) implementing policy changes and new oversight efforts to improve school meals certification; and (3) improving management of CACFP providers and vendors in WIC. We have identified these 4 programs as ones susceptible to improper payments and will continue to enhance the efficiency and accuracy with which these programs are delivered.

I am happy to report that in fiscal year 2004, the most recent year for which data is available, we have achieved a record level of food stamp payment accuracy with a combined payment accuracy rate of 94.12 percent. This is the sixth consecutive year of improvement, making it the lowest rate in the history of the program. With this budget request, we will continue our efforts with our State partners toward continued improvement in the payment accuracy rate. We will continue efforts to address the issue of proper certification in the school meals programs in a way that improves the accuracy of this process without limiting access of eligible children. Analytical work has begun to better assess the accuracy of eligibility determinations in the CACFP.

FAITH-BASED AND COMMUNITY ORGANIZATIONS OUTREACH

Faith-based and community organizations have long played an important role in raising community awareness about program services, assisting individuals who apply for benefits, and delivering benefits. President Bush has made working with these organizations an Administration priority, and we intend to continue our outreach efforts in fiscal year 2007. The partnership of faith-based and community organizations and FNS programs, including TEFAP, WIC, CACFP and NSLP is long-established. Significant numbers of faith-based schools participate in the NSLP and many child care providers and sponsors are faith-based and community organizations. In addition, the majority of food pantries and soup kitchens that actually deliver TEFAP benefits are faith-based and community organizations. Across the country, faith-based organizations have found over the years that they can participate in these programs without compromising their mission or values. They are valued partners in an effort to combat hunger in America. I am happy to report we have provided eight grant awards of approximately \$2 million to community and faith-based organizations to test innovative food stamp outreach strategies to reach underserved, eligible individuals and families.

HUMAN CAPITAL MANAGEMENT

We currently estimate that up to 80 percent of our senior leaders are eligible to retire within five years, as is nearly 30 percent of our total workforce. FNS must address this serious challenge by improving the management of the agency's human capital, strengthening services provided to employees, and implementing programs designed to improve the efficiency, diversity, and competency of the work force. With just nominal increases for basic program administration in most years, the FNS has reduced its Federal staffing levels significantly over time.

We have now reached a critical point within our agency staffing levels; we simply must have the ability to develop the resources necessary to continue to assure appropriate access to the agency programs while maintaining stellar integrity outcomes. While we have compensated in the past by building strong partnerships with the State and local entities which administer our programs and taking advantage of technological innovations, the President's budget proposes the addition of 40 staff years to perform fundamental program integrity activities for the Food Stamp Program.

It is also important that we have the ability to conduct research on our programs and we ask that we not be prohibited from doing so. We are extremely proud of what we have accomplished. In order to continue to achieve improvements in program integrity and program access; I believe full funding of the Nutrition Program Administration (NPA) request in this budget is vital.

Now, I would like to review some of the components of our request under each program area.

FOOD STAMP PROGRAM

The President's budget requests \$37.9 billion for the Food Stamp account including the Food Stamp Program and its associated nutrition assistance programs. These resources will serve an estimated 25.9 million people each month participating in the Food Stamp Program alone. Included in this request is the continuation of the \$3 billion contingency reserve provided for the program in fiscal year 2006. While we anticipate improvement in the general economy, the turning point of participation continues to be challenging to predict.

To better meet this challenge, we have proposed, as an alternative to the traditional contingency reserve, indefinite funding authority for program benefits and payments to States and other non-Federal entities. These contingency resources are important to not only ensuring the availability of basic program benefits, but also to ensuring that adequate funds are available in the event of disasters. The Food Stamp Program is designed to respond, not only to the economy but also to disaster-related food assistance needs. Our recent experience with the Gulf Coast disasters made this very clear when over \$900 million in food stamp benefits have been issued to date to over 1.9 million households affected by Hurricanes Katrina, Rita and Wilma in the fall of 2005. In addition, we have made a concerted effort to encourage working families, senior citizens and legal immigrants to apply for benefits.

The President's budget request contains three legislative proposals for the Food Stamp Program. These proposals work together to strengthen the national framework of the Food Stamp Program by setting national standards that better target benefits to low-income persons. They support the priorities of access and nutrition assistance for those in need while ensuring integrity in the program.

The budget proposes to exclude the value of tax-preferred retirement accounts from the Food Stamp certification asset test. This exclusion strengthens retirement security policy and enables low-income people to get nutrition assistance without depleting their retirement savings. It also simplifies food stamp resource policy and makes it more equitable because under current law, some retirement accounts are excluded while others are not. This proposal is consistent with the President's Ownership Society Initiative, by increasing the ability of low-income people to save for retirement.

Our budget once again proposes to eliminate categorical Food Stamp eligibility for Temporary Assistance for Needy Families (TANF) participants who receive only non-cash TANF services. Fully implemented in fiscal year 2008, this change is estimated to affect approximately 300,000 individuals and save \$658 million over five years. We believe this proposal ensures that food stamp benefits will go to the individuals with the most need and retains categorical eligibility for the large number of recipients who receive cash assistance through TANF, Supplemental Security Income and General Assistance.

Also included in the budget is a proposal to add the Food Stamp Program to the list of programs for which States may access the National Directory of New Hires. Access to this national repository of employment and unemployment insurance data will enhance States' ability to quickly and accurately make eligibility and benefit level determinations, supporting continued program integrity. The budget also requests a continuation of a policy included in last year's appropriations act to exclude special military pay received by members of the armed forces serving in combat zones when determining food stamp benefits for their families back home.

Finally, the Administration remains committed to proposing a name change for the program to Congress. We will continue the process that began in 2006 to gather information related to a proposed name change for Congressional consideration.

CHILD NUTRITION PROGRAMS

The budget requests \$13.6 billion for the Child Nutrition Programs, which provide millions of nutritious meals to children in schools and in childcare settings every day. This level of funding will support an increase in daily NSLP participation from the current 30.2 million children to approximately 30.9 million children. Requested increases in these programs reflect rising school enrollment, increases in payment rates to cover inflation, and proportionately higher levels of meal service among children in the free and reduced price categories. To ensure that Child Nutrition Programs respond to unforeseen increases in participation, the request provides \$300 million in contingency funding. This contingency reserve would make supplemental funding requests unnecessary at times of budgetary shortfalls. Similar to the Food Stamp Program, such a shortfall could result from larger than anticipated program participation growth, responses to natural disasters or other national emergencies.

We are continuing to implement program changes and new activities resulting from the 2004 reauthorization of these programs including the Fruit and Vegetable Program. We are also continuing our efforts to promote healthy behaviors by supporting the implementation of local wellness policies. We created the HealthierUS Schools Challenge to encourage communities to improve the foods offered at school and other aspects of a healthy school nutrition environment and to recognize schools that made improvements.

FNS is continuing to integrate the 2005 Dietary Guidelines for Americans recommendations into the school meal programs. By law, school meals are required to be consistent with the Guidelines. Meals in the NSLP must provide one third of the Recommended Dietary Allowances (RDAs), while meals in the School Breakfast Program must provide one fourth of the RDAs. An FNS workgroup is reviewing the new Guidelines as well as the Dietary Reference Intakes (DRIs) nutrient standards to identify potential changes in the meal patterns within the existing meal reimbursement structure.

The workgroup will make recommendations based on its review. USDA will publish a proposed rule with changes to the meal patterns and actively seek public comment. Federal, State and local staff will work together to implement the new requirements, plan improved recipes and menus, modify contracts to obtain the needed ingredients or modified products, and train staff who prepare and serve the food.

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN
(WIC)

The President's budget request includes \$5.2 billion for the WIC Program. This request will provide food, nutrition education, and a link to health care to a monthly average of 8.2 million needy women, infants and children during fiscal year 2007, including former CSFP participants.

The budget contains a two-part proposal that reflects our commitment to both support core activities of the WIC Program and reduce Federal discretionary spending. We are proposing to cap the level of Nutrition Services and Administration (NSA) funding to no more than 25 percent of the total WIC State grant amount for fiscal year 2007. We continue to believe the reduction in NSA funding will not have a significant impact on the delivery of core WIC services. States will be encouraged to work with Federal program staff to seek efficiencies in the delivery of the program to ensure that the reduction in NSA funding does not impact core services.

Looking forward to fiscal year 2008, the budget proposes to replace this NSA cap with a 20 percent State match requirement. WIC is currently one of the few Federal programs that do not require State matching funds for administrative purposes. The proposal is not effective until fiscal year 2008 so that States are provided adequate notification to allow their legislatures to appropriate funds.

The President's budget request contains a proposal which limits automatic (adjunctive) eligibility based on participation in Medicaid to those individuals whose incomes are below 250 percent of Federal poverty guidelines. In the WIC Program, applicants can currently receive automatic (adjunctive) eligibility for benefits based on their participation in other means-tested programs such as the FSP and Medicaid. However, in some States, Medicaid permits participation of individuals with incomes higher than those established for eligibility for WIC (185 percent of the Federal poverty level). This proposal will better target WIC benefits to those most in need and, if enacted, the proposal will affect six States (Missouri, Maryland, Minnesota, Vermont, New Hampshire and Rhode Island).

The \$125 million contingency fund provided in the fiscal year 2003 appropriation and replenished in fiscal year 2005, continues to be available to the program. We currently do not anticipate using the reserve in either fiscal year 2006 or 2007, as available resources in fiscal year 2006 and the President's budget request will fully meet our projected program need for those 2 years.

FNS is continuing its efforts to review and consider revisions to the WIC food package. In September 2003, FNS contracted with the National Academies of Sciences' Institute of Medicine (IOM) to independently review the WIC food packages. The IOM recommendations on the WIC Food Packages were published in a final report in April, 2005. FNS has used these recommendations along with comments received on the public notice soliciting comments on food package changes to develop a proposed rule to update the WIC food packages. This proposed rule is in clearance and is expected to be published in the Summer of 2006.

The President's budget also requests the continuation of the moratorium on the authorization of new WIC-only stores. The current moratorium was put in place through the fiscal year 2006 appropriations bill and will expire at the end of this year. We believe it is important to continue this moratorium due to the uncertainty

that States encountered concerning the status of our regulations implementing new management controls on WIC vendor authorizations. This uncertainty arose as a consequence of a law suit filed by the National Women, Infants, and Children Grocers Association and the subsequent Temporary Restraining Order (TRO) issued by the Federal District Court. Although the law suit was resolved in favor of the government, States, particularly those covered by the TRO, were delayed several months in moving ahead with the implementation of new requirements. Therefore, to give States reasonable opportunity to put into place approved plans effecting these new cost control requirements, we believe continuation of the moratorium is prudent.

COMMODITY SUPPLEMENTAL FOOD PROGRAM (CSFP)

CSFP serves elderly persons and at risk low-income pregnant and post-partum and breastfeeding women, infants and children up to age six. The budget does not request funding for this program which is not available nationwide and duplicates two of the Nations' largest Federal nutrition assistance programs—Food Stamps and WIC. This program operates in selected areas in just 32 States, the District of Columbia, and two Indian Tribal Organizations. The populations served by CSFP are eligible to receive similar benefits through other Federal nutrition assistance programs that offer them flexibility to meet their individual needs. The Administration has proposed this change to better target limited resources to those major programs that are available nationwide, promoting equity and effectiveness.

The President's budget does include a request for funds to support the transition of CSFP participants to nationally available FNS nutrition assistance programs such as WIC and FSP. USDA will work closely with CSFP State agencies to ensure that any negative effects on program participants are minimized. We plan to implement a transition strategy to encourage those women, infants and children that are eligible for WIC to apply for that program, and to encourage elderly CSFP recipients to apply for the Food Stamp Program.

The budget request includes \$2 million to provide outreach and to assist individuals enrolling in the FSP. Elderly participants who are leaving the CSFP upon the termination of its funding and who are not already receiving FSP benefits will be eligible to receive a transitional benefit of \$20 per month. This transition benefit will end in the first month following enrollment in the FSP under normal program rules, or in 6 months, whichever occurs first. CSFP women, infants, and children participants who are eligible for WIC benefits will be referred to that program. Commodities obtained under agriculture support programs that would be used to support CSFP will be donated for use in other nutrition assistance programs, such as TEFAP.

THE EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

As provided for in the Farm Bill, the budget requests \$140 million for commodities in this important program. Our request for States' storage and distribution costs, critical support for the Nation's food banks, is \$50 million. The Food and Nutrition Service is committed to ensuring the continuing flow of resources to the food bank community including directly purchased commodities, administrative funding, and surplus commodities from USDA market support activities. Much of this funding is provided, at the local level, to faith-based organizations. Surplus commodity donations significantly increase the amount of commodities available to the food bank community from Federal sources.

SENIORS' FARMERS MARKET NUTRITION PROGRAM (SFMNP)

The President's budget request includes two provisions that improve the value of the SFMNP benefits. The first provision prohibits farmers selling eligible foods under the SFMNP from charging sales tax on fresh fruits and vegetables that are purchased using SFMNP checks or coupons, or that are provided to eligible recipients through community supported agriculture. The second provision ensures that the value of benefits provided to eligible recipients is not considered as income in the process of determining eligibility for any other Federal or State programs, such as food stamps, TANF, energy assistance, and housing assistance. It would also ensure that the value of the SFMNP benefit would not be considered as income in calculating the recipients' Federal or State tax obligations. These proposals are consistent with the way benefits are treated in all other Federal nutrition assistance programs.

NUTRITION PROGRAMS ADMINISTRATION (NPA)

We are requesting \$160.4 million in this account, an increase of \$18.6 million over our fiscal year 2006 level. This increase will partially offset personnel-related costs of the FNS workforce in fiscal year 2007. Our request for Federal administrative resources is needed to sustain the program management and support activities of our employees nationwide. The NPA account supports both FNS' administration of the nutrition assistance programs and CNPP's nutrition policy development and promotion activities targeted at the general population. Specific requests for this account include \$2 million to support continuing work on MyPyramid; \$4 million to support initiatives to improve program integrity within the Food Stamp Program and \$3 million to improve the coordination of nutrition education efforts across all of the our programs.

Our request for \$6 million to fund critical research and evaluation activities examining program integrity issues and ways to improve the delivery of program services is essential to the management of our programs, as is the \$3.5 million request to fund FNS' participation in Office of Management and Budget's initiative to modernize and better integrate financial management system across the government. I firmly believe we need this increase in NPA funding in order to maintain accountability for our \$57 billion portfolio and to assist States to effectively manage the programs and provide access to all eligible people.

Thank you for the opportunity to present this written testimony.

Senator BENNETT. Thank you very much.

In spite of how much we eat, we still have surpluses that Dr. Collins talks about. That is why we need to export.

Yes, sir. Dr. Raymond.

STATEMENT OF RICHARD RAYMOND

Dr. RAYMOND. Thank you, Mr. Chairman and Senator Kohl.

I am pleased to appear before you today to discuss the status of the Food Safety and Inspection Service (FSIS) programs and the fiscal year 2007 budget request for food safety within the U.S. Department of Agriculture.

As we begin another new year at USDA, I would like to point out that this one marks the 100th anniversary of the passage of the Federal Meat Inspection Act. We can look back over the past century with pride and certainly gain a greater appreciation for what USDA has done to protect our food supply and further public health protection.

Today, I will share with you some recent accomplishments, as well as our priorities to further protect the food supply, and will conclude with some highlights of our fiscal year 2007 budget request.

FSIS is accountable for ensuring safe meat, poultry, and egg products for 295 million people in this country and millions more around the world. In addition, we are accountable for ensuring compliance with the Humane Methods of Slaughter Act, so that all livestock used for human food are humanely handled and slaughtered.

There are indications that our risk-based Hazard Analysis and Critical Control Point, known as HACCP, system is working. We have seen dramatic declines in the prevalence of pathogens in the products that we regulate and the numbers of food-borne illnesses stemming from these pathogens.

Our regulatory sampling for *E. coli* O157:H7 and *Listeria monocytogenes* shows evidence of our successes. We have gone from a 0.86 prevalence rate for positive *E. coli* O157:H7 samples in cal-

endar year 2000 to only 0.17 percent prevalence rate for positives in the calendar year 2004. That is a four-fold drop.

During the same period, the prevalence rate for *Listeria monocytogenes* samples testing positive dropped from 1.45 percent in calendar year 2000 to only 0.55 percent in calendar year 2004, a three-fold drop.

Another success has been the break in the annual cycle of multi-million pound recalls and a dramatic decline in the number of recalls each year. We reached an all-time high of 113 recalls, totaling nearly 61 million pounds of product in 2002, and in 2004, we were down to only 48 recalls, totaling approximately 3 million pounds of product.

We have also seen the effect that the declining number of positive *E. coli*: O157:H7 and *Listeria monocytogenes* samples is having on food-borne illnesses caused by these two pathogens over an 8-year period of time. Illnesses caused by *E. coli* O157:H7 have decreased by 42 percent. That is less than 1 person per 100,000 population. And those illnesses caused by listeria have dropped by 40 percent.

I might add, these numbers do come from the CDC. These are not our numbers. I do feel that a picture is worth more than 1,000 words, and I have included graphs with our submitted written testimony with those numbers.

These successes would indicate that our risk-based approach is working and that we are protecting public health through a safer food supply. If we make the assumption, from the *E. coli* and *Listeria* data, that using product sampling trends can also be indicators for human illness trends, then we do have a glaring problem. That would be *Salmonella*.

According to our sampling data, the number of product samples positive for *Salmonella* has been on the rise in several poultry categories over the past 3 years, specifically in young chicken or broiler carcasses. The overall incidence of *Salmonella* infections also remains far greater than for other food-borne pathogens.

In 2004, according to data, again from the CDC, there were 14.7 cases of culture-proven *Salmonella* infections per 100,000 population in this country. This means 115 people are infected by *Salmonella* every day, or 42,000 every year. The CDC also says this is an underestimate by a factor of 38, which means that nearly 1.3 million people actually had *Salmonella* infections last year. In my view, that is way too high.

Salmonella infection rates are not declining like they are for the *E. coli*, *Listeria*, and *Campylobacter* bugs. In fact, they are rising for certain *Salmonella* serotypes. Last month, we announced an initiative to reduce *Salmonella* in meat and poultry products. This initiative will help FSIS be more proactive and will prevent illnesses.

It incorporates 11 steps, including increased product sampling and food safety assessments in plants where they are most needed, and our quarterly publication of nation-wide *Salmonella* data by class.

A \$602,000 increase that we are requesting for our risk-based *Salmonella* approach in fiscal year 2007 would, among other things, allow us to do serotyping more quickly and to initiate more

food safety assessments at high-risk establishments before an outbreak occurs.

Our next priority for the year is the cornerstone strategy to further improve food safety, implementing a more robust risk-based inspection system. Our 100-year-old inspection system was based on visual examination for visible signs of disease. The future demands that we also be able to identify things that the human eye cannot see, things the nose cannot smell, and things the fingers cannot feel.

We need to be able to better anticipate and more quickly respond to food safety challenges before they negatively affect the public's health. The \$2.6 million increase that we are seeking in the 2007 budget for risk-based inspection services will help FSIS reallocate its resources to focus more closely on food safety systems and prevent public health problems before they occur.

Finally, to further improve our food defense capabilities, we are asking for an increase of \$15.8 million for food and agriculture defense. A major component of this request will be allocated for the enhancement of the Food Emergency Response Network, known as FERN, which is a joint laboratory partners project between FSIS, Department of Health and Human Services, FDA, and selected State public health laboratories.

We saw what happened to laboratory capacity and the U.S. Postal Service efficiency when just a few letters were sent containing anthrax to just a few persons. That same thing can happen again with one phone call to the Washington Post indicating that the meat supply has been contaminated intentionally.

That is why our \$13 million request for FERN will provide 23 selected existing State or local laboratories with the necessary training, equipment, and supplies that they need so that surge capacity can be handled more quickly and closer to home.

From a public health standpoint, an investment in FERN is absolutely essential if we want to prevent or mitigate the loss of life and economic hardship if an intentional or an unintentional incident affecting the food supply or even a hoax were to happen.

We must also be prepared for the distinct possibility that one or all of our three FSIS laboratories could be intentionally incapacitated in an attack on our food supply.

Overall, in fiscal year 2007, FSIS is requesting an appropriation under current law of \$862.9 million, a net increase of about \$33.5 million from the enacted level for fiscal year 2006. This request supports the agency's basic mission, providing continuous or daily inspection in each U.S. meat, poultry, and egg products plant. The agency's permanent statutory obligation to provide continuous inspection is a labor-intensive mandate, therefore making its salary costs relatively inflexible.

An increase of \$16 million for the FSIS inspection program is requested to provide for a 2.2 percent pay raise for FSIS employees as well as \$1 million for salary increases in cooperating State inspection programs in fiscal year 2007 to assure that the agency is provided sufficient funds to maintain its programs.

PREPARED STATEMENT

Mr. Chairman, thank you again for providing me the opportunity to speak with the subcommittee and submit testimony regarding the steps that we are taking to continue our public health leadership role. Implementation of these budget initiatives is imperative so that we can continue to ensure the safety of the products that we regulate.

I look forward to working with you and the subcommittee to further improve our food safety program, and I would welcome any questions from the committee that you might have.

[The statement follows:]

PREPARED STATEMENT OF RICHARD RAYMOND

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to discuss the status of the Food Safety and Inspection Service's (FSIS) programs and the fiscal year 2007 budget request for food safety within the U.S. Department of Agriculture (USDA). I am Dr. Richard Raymond, Under Secretary for Food Safety. With me today is Dr. Barbara Masters, Administrator of FSIS.

USDA Secretary Mike Johanns and I share a passion for public health. I accepted this position last year because of the Secretary's commitment. I knew he would support and allow us to move forward to further enhance public health protection. The long history this Agency has of protecting public health was another aspect that drew me to this opportunity.

In fact, this year marks the 100th anniversary of the passage of the Federal Meat Inspection Act (FMIA), which ushered in a new era of food safety on a national level. Even prior to the passage of the FMIA, FSIS' predecessor agency, the Bureau of Animal Industry (BAI), carried out many important responsibilities to protect public health here and abroad. With an appropriation of \$150,000 in 1884—the first year of its existence—the BAI focused on preventing diseased animals from being used as food. Then in 1891, the initial Meat Inspection Act of 1890 was amended to cover the inspection and certification of all live cattle and beef for export.

As you see, the USDA has a long and proud history in protecting public health through food safety. To give you an idea of how far we have come in protecting public health, let me share these two facts with you.

One hundred years ago in the United States, the life expectancy was 45 years. Now it is approximately 75 years. And 100 years ago in the United States, one in five coffins contained a child under 5 years old. Today that number in the United States is only one in 100 coffins.

These are amazing accomplishments that have had a profound effect on our society and everyone here. Clean water, proper sewage treatment, vaccines and antibiotics have all played an important role, but a safer food supply has also played a vital role in this amazing improvement.

This is truly a good story, but the journey is far from over. There is much more we need to do. Both Secretary Johanns and I want to push the envelope to improve food safety and public health. We all must strive to do better because of constantly evolving threats and challenges to food safety and our public health system. Having been in the medical profession for 27 years as a doctor in both rural and urban parts of Nebraska, and having spent the last 6 years prior to USDA in public health, I know that the public health environment constantly evolves and it is not always a nine-to-five job. Product recalls during off hours and the Agency's response in the aftermath of Hurricane Katrina are just a couple of examples of the many instances when FSIS personnel worked many hours beyond their regular tours of duty.

This is why I am truly proud and impressed by the dedicated professionals at FSIS, who often put in long hours when needed to ensure that our meat, poultry and egg products supply is the safest in the world. Their support and the Agency's successes in protecting the health and well being of millions of consumers worldwide would not have been possible without the resources you have so generously given to us. I will cover FSIS' successes in more detail, our priorities in the coming year, and conclude with a discussion of the fiscal year 2007 budget request.

Accomplishments

We are accountable for protecting the lives and well-being of 295 million people in this country and millions more around the world. There are indications that our

risk-based system to protect these consumers is working. We have seen dramatic declines in the prevalence of pathogens in the products we regulate and the numbers of foodborne illnesses stemming from these pathogens due to many actions by the Agency including the use of risk assessments, working with our partners along the farm-to-table continuum, and basing our policies on sound science.

Regulatory Sampling

One such success is apparent in our regulatory sampling for *E. coli* O157:H7 and *Listeria monocytogenes*.

Let's take a look at results from our microbiological surveillance testing program for *E. coli* O157:H7. We have gone from 59 positives in 7,010 samples for *E. coli* O157:H7 in CY 2001 to only 14 positives in 8,010 samples in CY 2004. Each year's prevalence rate is listed below.

- In CY 2001, our testing program yielded 59 positive results out of 7,010 samples for a rate of .84 percent;
- In CY 2002, there were 55 positive results from 7,025 samples for a rate of .78 percent;
- In CY 2003, there were 20 positives out of 6,584 samples for a rate of .3 percent; and
- In CY 2004, there were 14 positives out of 8,010 samples for a rate of .17 percent.

Our testing for *Listeria monocytogenes* (Lm) in all ready-to-eat (RTE) products shows similar progress. Compared to a decade ago before HACCP was implemented, we have made substantial progress in Lm control, as these statistics from our RTE sampling program indicate:

- In 1995, 3.02 percent tested positive;
- In 1996, 2.91 percent tested positive;
- In 1997, 2.25 percent tested positive;
- In 1998, 2.54 percent tested positive;
- In 1999, 1.91 percent tested positive;
- In 2000, 1.45 percent tested positive;
- In 2001, 1.32 percent tested positive;
- In 2002, 1.03 percent tested positive;
- In 2003, .76 percent tested positive; and
- In 2004, .55 percent tested positive.

Recalls

Another success has been the break in the annual cycle of multi-million pound recalls and a dramatic decline in the number of recalls each year. The number of recalls had been increasing since the mid 1990s, with at least one multi-million pound recall being conducted every year until 2002.

For example:

- In 1997, there were 27 recalls for a total of nearly 28 million pounds;
- Followed by 44 recalls of just over 44 million pounds in 1998;
- 58 recalls in 1999 for 40 million pounds of product;
- 76 recalls of almost 23 million pounds in 2000;
- 87 recalls in 2001 for 33 million pounds; and
- Reaching an all-time high of 113 recalls in 2002, totaling nearly 61 million pounds.

After we implemented science-based policies for *E. coli* O157:H7, *Listeria monocytogenes*, and *Salmonella*, we saw a dramatic decline in recalls, culminating in a reduction of nearly 18 percent in the number of pathogen-related recalls, from 28 in 2003, to 23 in 2004.

Foodborne Illnesses

Another significant measure of how our science-based policies are making a major impact on public health is from the annual FoodNet preliminary report published by the Department of Health and Human Services' (DHHS) Centers for Disease Control and Prevention (CDC) every spring [the annual report is published later each year]. I will discuss FoodNet later, but according to the CDC, there have been significant declines from 1996 to 2004 in illnesses caused by *E. coli* O157:H7, *Listeria monocytogenes*, *Campylobacter*, and *Yersinia*. Compared to the 1996–98 baseline, illnesses caused by *E. coli* O157:H7 decreased by 42 percent; *Listeria monocytogenes* dropped by 40 percent; *Campylobacter* fell 31 percent; and *Yersinia* decreased by 45 percent.

This is just raw data. To put these figures into real human terms, in 2004, we saved at least an additional 21,815 people from suffering the debilitating effects of a foodborne illness. That is nearly the number of people who work inside the Pentagon on a daily basis.

Stated another way, in 2004, compared to the 1996–98 baseline, an additional 1,939 people did not miss work because of *E. coli* O157:H7. Five hundred thirty-five more people did not suffer from a high fever caused by *Listeria monocytogenes*. Nearly 17,250 consumers did not have severe abdominal cramps caused by *Campylobacter*. And approximately 2,100 people did not have to think, “What did I eat?” thanks to an illness caused by *Yersinia*.

Taken together, these human health results, declines in recalls, and decreasing numbers of pathogens in our sampling program indicate that our risk-based approach is working, and that we are protecting public health through a safer food supply. While this is good news, we still have areas of concern.

Salmonella

A specific concern is *Salmonella*. When FSIS reported its 2003 data, the Agency acknowledged concern that the percentage of positive *Salmonella* tests had increased slightly in all three poultry categories. While the 2004 data showed more mixed results, there was a continued increase for young chicken (or broiler) carcasses and that number rose again in 2005.

It is clear that the overall incidence of *Salmonella* infections remains far greater than our objective. In 2004 FoodNet data, there were 14.7 cases of culture-proven *Salmonella* infections per 100,000 people. This means 115 people are infected by *Salmonella* every day, or 42,000 every year. In my view, as someone with a medical background, that is way too high.

The CDC’s 1999 estimate of *Salmonella* infections is even higher. They estimate about 1.4 million cases of infection each year, with about 16,000 hospitalizations, 580 deaths and \$3.1 billion in health care costs.

The CDC’s 2005 FoodNet report (of 2004 data) did not look any better. While it did report that *Salmonella* infections dropped 8 percent, only one of the five most common strains, which accounted for 56 percent of the reported *Salmonella* infections in 2004, declined significantly. That strain was *Salmonella* Typhimurium which declined 38 percent.

Salmonella Enteritidis and *Salmonella* Heidelberg neither increased nor decreased significantly. However, incidences of *Salmonella* Newport increased by an alarming 41 percent.

It is clear that we must do better if we are going to meet DHHS’ Healthy People 2010 objective for *Salmonella*, which is 6.8 infections per 100,000 people. We have already met the DHHS’ Healthy People 2010 objective of 1.0 cases of *E. coli* O157:H7 per 100,000 people. In 2004, the CDC reported 0.9 cases of *E. coli* O157:H7 infections per 100,000 people.

However, I do believe there is a way this year to combat *Salmonella* as I will explain later. I believe that we can leverage new technologies and cutting edge research, not only to reach the Healthy People 2010 objective, but to drive the numbers even lower.

Cooperation and Collaboration with Other Agencies and Food Safety Partners

Another significant accomplishment from 2005 has been unprecedented cooperation and collaboration with other Federal, State and local agencies and food safety partners.

For starters, Avian Influenza has received a significant amount of press recently. FSIS takes this animal health issue very seriously. We will require a multi-agency effort to address this issue, and we have embarked on such an approach. FSIS has a Memorandum of Understanding with the Animal and Plant Health Inspection Service (APHIS), in which FSIS agrees to promptly notify APHIS if FSIS inspection program personnel detect signs of foreign animal disease. FSIS is also participating in several interagency groups that include DHHS, as well as State and local government agencies.

In food defense, FSIS has been working very closely with DHHS’ Food and Drug Administration (FDA), the Department of Homeland Security and the National Association of State Departments of Agriculture in developing guidelines and procedures for State and local first responders and Federal food regulatory agencies. This interagency response plan will facilitate cooperation with State and local emergency efforts when responding to incidents involving the food supply. We have already started testing these guidelines. We conducted an exercise through our district office in California with the California Department of Agriculture, the California Department of Health, Environmental Protection Agency, FDA, Federal Bureau of Investigation, CDC, and local and county health officials. We intend to hold more of these exercises with each FSIS district office and our partners so that we can make continuous improvements to the guidelines.

We also have been working closely with industry to help them develop voluntary comprehensive food defense activities for every establishment. We feel it is essential that all slaughter, processing, import and export establishments take steps to ensure the security of their operations. Earlier in 2005, we made available on FSIS' Web site an "Industry Self-Assessment Checklist for Food Defense" and model food defense activities that they can use to guide their actions to defend the safety of their product. In addition, we have our inspectors ready and trained to assist industry as they enhance the protections they already have in place. As of this date, FSIS inspection program personnel have conducted over 1.3 million evaluations of establishment food defense activities and have found less than 1,500 areas that needed to be addressed.

The model food defense activities were developed as a result of the vulnerability assessments that FSIS conducted for selected domestic and imported food products. These assessments allowed us to rank food products and potential contaminating agents in order of highest concern. Using this risk-based ranking, during periods of heightened awareness, FSIS' laboratories examine samples for threat agents posing the greatest risk as identified in FSIS' vulnerability assessments.

Although the findings from these vulnerability assessments are classified, FSIS has been training industry representatives in how to conduct the assessments. As a result, many companies are now conducting their own assessments and taking appropriate measures to defend their processing lines and distribution chains from intentional contamination.

Another example of collaboration is the Food Emergency Response Network (FERN). This joint FSIS-FDA effort of national, State, and local laboratories provides ongoing surveillance and monitoring of food and will promptly respond to an intentional contamination that targets the Nation's food supply. I will discuss FERN in more detail later when I go over our priorities for fiscal year 2007.

We are also working closely with the CDC and FDA to improve our ability to link foodborne illness estimates with different food vehicles. Data on foodborne illnesses due to specific pathogens also needs to be connected with data on the prevalence of different pathogens in specific foods.

The Foodborne Diseases Active Surveillance Network, or FoodNet which I mentioned before, is part of CDC's Emerging Infections Program, and it allows FSIS and our Federal, State, and local food safety partners to integrate foodborne illness data to determine the burden of foodborne disease, monitor foodborne disease trends, and determine the extent of foodborne diseases attributable to specific foods. Since 1995, FSIS has worked closely with the CDC, FDA, and State and local epidemiologists and public health laboratories in making FoodNet an essential public health tool.

FoodNet includes active surveillance of foodborne diseases, case-control studies to identify risk factors for acquiring foodborne illness, and surveys to assess medical and laboratory practices related to foodborne illness diagnosis. It provides estimates of foodborne illness and sources of specific diseases that are usually found in the United States and interprets these trends over time. Data are used to help analyze the effectiveness of our HACCP rule and other risk-based regulatory actions, as well as to develop public education initiatives.

Consumer Safety Education

Speaking of education, last year FSIS reached nearly 120 million citizens by developing and distributing brochures, technical papers, and booklets through the media, educators, the Agency's Web site, the Meat and Poultry Hotline, FSIS' virtual representative "Ask Karen," and the USDA Food Safety Mobile. As a medical doctor, I truly value the importance of effective and continuous food safety outreach to consumers. It is the key to any multi-pronged strategy to prevent people from getting sick and possibly dying.

In fiscal year 2005, our Meat and Poultry Hotline handled nearly 88,000 consumer calls on the safe storage, preparation, and handling of meat, poultry and egg products and over 130 media and information multiplier calls that included requests from newspapers, magazines and book authors along with live interviews with radio and television stations. From a public health standpoint, we still want to serve consumers even if an unexpected event affects the Washington, DC metropolitan area. No one should have to suffer through a foodborne illness after they have tried to contact our Hotline and have found it is down due to some unforeseen incident in the capital area. That is why in fiscal year 2006, we are expanding and upgrading the Hotline communication equipment to ensure uninterrupted service to the public in the case of an unexpected event.

Research has shown FSIS that the at-risk, under-served, and Spanish-speaking populations require education and messages geared to their needs. In fiscal year 2005, FSIS continued to develop education programs for elderly, immune-com-

promised, and other at-risk individuals, and assisted with revisions to the American Medical Association/CDC/FDA/FSIS *Diagnosis and Management of Foodborne Illness: A Primer for Physicians*. We also developed a brochure titled, *What Transplant Recipients Should Know About Food Safety*. This is just one in a series of publications that will be developed targeting other at-risk audiences.

In an unprecedented effort to reach those underserved, yet at-risk for foodborne illness, FSIS is cosponsoring a food safety conference entitled, "Reaching At-Risk Audiences and Today's Other Food Safety Challenges," with the FDA, CDC, and private sector organizations. The goals of this conference include sharing current surveillance and epidemiological data on foodborne illness; presenting strategies leading to enhanced food safety knowledge, skills, and abilities in the general population and among at-risk populations; and to communicate the latest science-based safe food handling principles and practices.

Also, FSIS produced a public service announcement (PSA) "Fight BAC!®" in Spanish and distributed more than 50,000 copies to a national network of physicians' offices. In addition to being able to view the PSA, patients had access to flyers describing listeriosis, a foodborne illness more common in the Hispanic population.

The USDA Food Safety Mobile that I mentioned earlier tours nationwide to support food safety education efforts and reach consumers where they live. In fiscal year 2005, the Mobile appeared at State and county fairs, food events, media events, schools, libraries, grocery stores, community events, parades, festivals, health and safety expos, trade shows, conventions, FSIS District Offices, and at FSIS events in conjunction with visits and presentations by USDA officials. Hundreds of thousands of educational items have been distributed and millions of consumers have been reached through media coverage of the Mobile. Since its launch in March 2003, the Food Safety Mobile has traveled more than 66,000 miles, appearing in 247 events in approximately 185 cities, in 48 States and the District of Columbia.

Hurricane Katrina Response

The Mobile was a vital component of our Hurricane Katrina response strategy. We deployed it in September 2005 to areas affected by Hurricane Katrina to provide firsthand food safety education and assistance to prevent any outbreaks of foodborne illness. I realized that food safety would not be one of the top priorities with many of the affected populace, given that they were displaced, grieving the loss of loved ones, or looking for missing family and friends. However, we were gravely concerned about the public health consequences of the hurricane's aftermath. With power outages and flooding of contaminated water, the potential for people consuming contaminated food was alarmingly high, which was why I ordered the Mobile to immediately abandon its previously scheduled course in the Northeast and head down to the Gulf Coast. I also directed FSIS to lease a second Food Safety Mobile to go to the affected areas.

During its two-and-one-half month tour of the Gulf States, the Food Safety Mobile reached nearly 41,000 total consumers and distributed food safety brochures, bleach, hand wipes and thermal bags. The second Mobile appeared at 18 events, reaching an additional 15,000 consumers.

In addition to our swift and aggressive consumer outreach, FSIS worked as rapidly as possible with industry to resume operations at meat, poultry and egg product establishments in the affected areas of the Gulf States. By September 5, 2005, FSIS had deployed approximately 30 additional inspection program personnel and compliance staff personnel to this area so these plants could quickly resume operations. These personnel also oversaw the appropriate disposal and decontamination procedures at the plants.

On September 20, 2005, FSIS began increased *Salmonella* testing of raw meat and poultry products in the affected areas of the Gulf Coast to provide microbial data to compare with nationwide data. FSIS also trained additional non-field staff to assist in conducting intensified verification tests in ready-to-eat establishments for *Listeria monocytogenes*, including collecting food-contact surface and environmental samples, to supplement product sampling and food safety assessments. These provided an additional layer of microbial testing and verification to ensure the safety of the ready-to-eat meat products.

Building the Foundation of a More Robust Risk-Based Inspection System

The successes from 2005 are varied and significant, ranging from reductions in pathogen prevalence to a quick and concerted response in the aftermath of Hurricane Katrina. The examples I just covered indicate that our food safety system works and is strong. However, I do not want to serve as just a caretaker of a good system.

Even though FSIS has accomplished a lot, people still get sick and die each year from consuming contaminated food. As a medical doctor, that simply does not set well with me. I did not accept this job last year to recall hamburger, ham, sausage or any other product on a routine basis. I want to focus our time and valuable resources on prevention, rather than on response. It is a common sense, cost-effective public health strategy that best serves the American consumer.

However, in order to move forward with this approach, we are going to need the help of everyone along the farm-to-fork continuum and Congress. I know with your support, we can further improve upon the food safety successes that we have already seen.

The cornerstone of our strategy is to move forward on implementing a more robust risk-based inspection system. Our current system, while strong, is not suited to the future realities of food safety and public health, and we will need the new capabilities offered by an enhanced risk-based system.

Our 100-year old inspection system was based on visual examination for visible signs of disease. The future demands that we be able to focus more on things that the human eye cannot see, things the nose cannot smell, and things the fingers cannot feel.

We will also need the ability to anticipate and quickly respond to food safety challenges before they negatively affect public health. This is vital, as is a system that will allow us to use our finite resources more effectively and efficiently to further improve food safety. As a public health agency, we must have the capability and capacity to be smarter and act more efficiently, quickly and flexibly.

This means a move away from a regulatory agency that protects public health by recalling dangerous product or withdrawing marks of inspection toward one that is focused on actively preventing foodborne illnesses from ever occurring. However, it is important to note that FSIS already uses a risk-based approach to food safety. Our goal is to further enhance and strengthen that system so that we are prepared for the food safety challenges in the next century. This is why we are requesting in the fiscal year 2007 budget an increase of \$2.6 million to help us move toward our goal of a more robust risk-based inspection system.

To continue our progress toward a more robust risk-based inspection system, we need to be sure that we communicate openly and often with all of our food safety stakeholders. We will use a transparent and inclusive process to seek input on a wide range of issues related to creating a more robust risk-based inspection system.

We will proceed through a public process, gaining input from all of our stakeholders. At the last meeting of the National Advisory Committee on Meat and Poultry Inspection (NACMPI) in November, the Committee recommended a third-party approach to assist us in reaching out to, and gaining input from, our stakeholders. For this purpose, we are now in the process of selecting a third party. We have already established a NACMPI subcommittee to provide regular, ongoing guidance. It is important that we ensure everyone participates in this process.

In fiscal year 2007, we plan to advance risk-based inspection in processing establishments through team inspection. This approach will utilize Agency-developed measures, which gauge an establishment's inherent hazard; monitor how well establishments are controlling hazards and complying with regulatory requirements; and provide for risk-based verification testing for *Listeria monocytogenes* in ready-to-eat products and the environment, and for *Salmonella* and *E. coli* O157:H7 in raw products.

Effective implementation of team inspection in processing and risk-based verification testing will require not only workforce training for risk-based inspection, but also implementation support activities to ensure consistency of application after training.

As part of a comprehensive risk-based inspection system, we will develop risk-based verification strategies for meat and poultry in commerce that can be used by FSIS personnel. Such activities would complement inspection activities performed in-plant. This initiative in fiscal year 2007 covers the cost of testing the policies, methods, and information technology (IT) applications to determine which mix provides the best consumer protections within FSIS' regulatory authority.

Data obtained through surveys enable the Agency to base policies and regulations for inspection on a comprehensive understanding of the measures taken by establishments to reduce foodborne risks and the efficacy of such measures as processing technologies and pathogen reduction interventions. These surveys will be used to measure the potential impact of proposed regulatory changes, identify which segments of the industry may be achieving a regulatory standard, and identify improvements other establishments will need to make to achieve the standard.

Risk-Based Salmonella Control

Part of the \$2.6 million request for risk-based inspection is for risk-based Salmonella control, which amounts to \$602,000. Given the challenge we face with Salmonella that I mentioned earlier and the fact that there has been an increasing concern about outbreaks attributed to emerging and multi-drug resistant strains of Salmonella, it is imperative that we take a risk-based approach to investigating and controlling the incidence of Salmonella in meat, poultry and egg products.

Since the prevalence rate in broiler chickens seems to be a trouble spot, we are looking into revising the performance measure for Salmonella on this particular product. Since 1998, FSIS has used the prevalence of Salmonella on broiler chickens, which is a regulatory performance standard for the production of raw poultry carcasses (broilers), to measure the Agency's performance in achieving its goal of reducing foodborne illness.

However, FSIS has identified three weaknesses with the current measure. The first one is that the measure is scientifically unsound. The FSIS regulatory testing program that is the source of the data used in the current performance measure does not provide a true measure of prevalence of the pathogen.

The second weakness is that the current measure overlooks an important public health issue. The current measure is for generic Salmonella, including those that are not attributed to foodborne illness. Not all serotypes of Salmonella are equally dangerous for humans. There are many known serotypes of Salmonella found in broilers, some of which cause human illness with varying severity. In fact, the most common serotype is not a significant factor in human foodborne illness.

The third weakness is that the current testing program is not consistent with FSIS' goal of transitioning to a more risk-based inspection system. Plant process controls for Salmonella vary widely. Since 2003, aggregate percent positives in sample sets have increased each year from 11.5 percent in 2002, to 16.3 percent in 2005 while still remaining within regulatory performance standards. In order to improve program performance, FSIS is working to strengthen its verification testing program by making it more risk-based.

Recognizing these weaknesses, FSIS will develop a new performance measure that more accurately measures:

- Agency performance in achieving its goal of reducing foodborne illness; and
- Plant performance, including identification of those plants that are most likely to have Salmonella serotypes that cause human illness.

FSIS has analyzed data from approximately 7 years of regulatory testing for Salmonella in broilers. The Agency found strong evidence that plants that have consistently achieved a percent positive rate in sample sets at or below half the current regulatory performance standard are less likely to produce raw product that have the serotypes of Salmonella that are causes of human illness. Since these plants have been successful in controlling overall Salmonella to low levels, they would also have low levels of serotypes that are causes of human illness.

As a result, achievement of performance goals established under the new measure would provide a better indication of process control and relate more directly to the improved safety of broilers. Consequently, we are developing a new measure to replace the existing Salmonella performance measure that would demonstrate the potential for reduction in exposure of humans to the serotypes of Salmonella most commonly associated with human illness.

As we move forward on Salmonella, much can be learned from the success from our risk-based model dealing with *E. coli* O157:H7. In 2002, FSIS issued a Federal Register notice to manufacturers of raw ground beef to conduct reassessments of their HACCP plans. Our scientifically trained personnel conducted food safety assessments through the first-ever, comprehensive reviews of all-beef products. The reassessments and enhanced process control by plants, with assessments by FSIS and testing, led to reductions in *E. coli* O157:H7 percent positives in FSIS' verification testing program.

Using this model, we are planning to re-evaluate the broiler industry's process controls for serotypes of Salmonella that cause human illness. We will use food safety assessments as tools to reassess higher risk plants, which have the greatest potential to operate above the existing Salmonella performance standard. A food safety assessment is a systematic evaluation of a plant's scientific basis, design, validation and execution of its HACCP plan. In an example of how effective food safety assessments are, one broiler plant had a 30 percent positive Salmonella rate. After our enforcement, investigation, and analysis officers conducted the assessment, the plant has a two percent positive Salmonella rate and is holding steady. This is the kind of result we anticipate for Salmonella.

Outreach to Small and Very Small Plants

In order to move forward with a more robust risk-based inspection system, we need to have the support of industry. All plants need to fully embrace HACCP, and a critical sector of the industry we regulate are small and very small plants, which comprise the majority of the plants we oversee each day.

We realize that small and very small plants have unique needs when it comes to full-scale HACCP implementation and that they might not have as many resources as large plants do. Therefore, I made an absolute priority of increasing the communication between FSIS and the small and very small plants so that we can identify and respond to their needs faster and more efficiently with regard to full-scale implementation of their HACCP plans.

Since September 2005, we have held listening sessions for small and very small plant owners and operators in Montana, California and Pennsylvania. These sessions gave us a better understanding of what was causing gaps between a plant's performance and our expectations for them to operate under HACCP. As a result, we have taken several actions to remedy any misunderstanding and deliver what small and very small plants need to embrace HACCP effectively.

I do believe that education facilitates a greater understanding and helps close any performance gaps in implementation of HACCP plans. It also keeps FSIS from having to take enforcement action on establishments. I would be much happier with a solution that calls for increased education rather than for increased regulation; however, I have made the point to industry that we will do whatever it takes to ensure that a robust HACCP system is implemented and maintained in each and every plant, large or small. Public health is our responsibility and we will take regulatory action as necessary.

This is absolutely necessary to move forward because when a child eats a hamburger, that burger should be as safe as it possibly can be, regardless of the size of plant it comes from. If that child gets *E. coli* O157:H7 or Salmonella, then that child, the child's parents and the child's doctor do not care what size that plant was, or how much ground beef it produced.

Workforce Training

In addition to industry's complete embracing of HACCP, training FSIS' workforce is a key component to ensure a robust risk-based inspection system. I understand that it requires a large investment in FSIS employees to ensure they have the training and skills they need to be successful in a risk-based environment. However, it is an investment that I know will continue to provide food safety dividends well into the future. If they succeed, then the American consumer is better off as well.

Training enables inspection program personnel a wider range of opportunities to make a real difference in public health, and it also opens new avenues of career advancement to our employees. I also believe training improves job satisfaction, which leads to increased employee retention and recruitment.

One of the Agency's top priorities in recent years has been to aggressively address the training and education of its workforce. We truly appreciate the support you have provided for us to pursue this goal. The increased workforce capabilities made possible by the changes and improvements in FSIS training have led to measurable improvements in public health, as I mentioned before using the data from the CDC. The declines in pathogen contamination further demonstrate that your support for our investment in training is a critical component of our public health infrastructure.

Public Health Communications Infrastructure

Another critical building block for the foundation of a robust risk-based inspection system is to have a public health communications infrastructure that has the ability to collect, assess and respond to data in real-time. This is why we are requesting \$1.9 million in fiscal year 2007 to enhance our communications infrastructure.

It is vital for our in-plant personnel to have this data in real-time in order to do their jobs properly and effectively. If they can do their jobs effectively, then FSIS will be able to react more rapidly in a crisis to better protect public health and ultimately save lives.

Enhancing effective field communication capabilities has been a major goal of FSIS. Yet, while these efforts are continuing, approximately 40 percent of FSIS' field inspection workforce remains without timely communication capabilities. Part of the \$1.9 million request for the communications infrastructure would be \$615 thousand dedicated specifically toward inspector communication enhancement. With a need for increases in food safety assessments, enforcement actions and increased readiness, timely communication is vital to more effectively protect consumers.

We need to continue the progress we have been making in replacing dial-up connections with high speed telecommunication lines for our field force. High-speed access enables us to receive real-time data and thus react more quickly to protect the public health. It is also an essential time-saving and cost-saving mechanism that makes management of the Agency's operations more efficient in the long run. We provided high speed telecommunication lines first to slaughter establishments with inspection personnel having bovine spongiform encephalopathy regulatory enforcement responsibilities. In fiscal year 2006, we are continuing this strategy of bringing broadband service to over 2,300 base plant locations.

In addition, the rapid pace of technological change in operating systems, application software and hardware, as well as the failure/repair rates for equipment, necessitates the replacement of computers every 3 years. The \$1.3 million requested for computer replacements will enable FSIS to meet the demands of major operating system changes and eliminate the need for warranties extended beyond 3 years and expenditures not covered by the warranties. We need to ensure our compliance officers, supervisory and inspection program personnel, as well as State inspection personnel receive replacement computers. At present, this accounts for about 4,000 microcomputers in the field, and our goal is to replace 1,300 to 1,400 computers annually.

Food Emergency Response Network

To continue the advancements in food defense that I mentioned earlier, we are asking for an increase of \$15.8 million for food and agriculture defense. A major component of this request would be allocated for the Food Emergency Response Network (FERN), which I also mentioned earlier.

Consumer safety and public health protection will be enhanced through FERN. This will be possible through achieving FERN's four primary objectives. The first objective is to help us and partnering agencies prevent, or at least mitigate the brunt of, any attacks on the food supply through surveillance testing. The second objective is to prepare for emergencies by strengthening laboratory capabilities through the development and validation of analytical methods, analyst training and proficiency testing. The third objective is to respond to threats, attacks and emergencies in the food supply by providing a communications network and the necessary laboratory surge capacity. And the final objective is to provide laboratory support for investigations of, and recovery from, terrorism-related events.

Being able to respond rapidly to a sudden surge in demand for testing is imperative, if we are going to restore consumer confidence in the safety of the Nation's food supply and to maintain U.S. economic stability in spite of the event. We only need to look back at the anthrax attacks in the autumn of 2001 to learn a valuable lesson. Only a few envelopes containing traces of anthrax were opened and only a few people died.

But what happened in this bioterrorism event was that all Americans became fearful of exposure to anthrax when they came in contact with any white, powdery substance. Demand for laboratory testing of these substances was nationwide, and most laboratories did not have the necessary resources to handle this surge, causing prolonged delay before people knew if they had been exposed or not, putting a great burden on the Nation's psyche.

When I worked in Nebraska's Department of Public Health, we had set up and maintained an effective laboratory testing system that could handle surge capacity within that State, whether it was for events stemming from intentional acts or Mother Nature. If we had not built such capacity, then only a few State laboratory technicians would have been inundated with West Nile virus testing when the virus hit Nebraska. We had an integrated system, so that when West Nile did become a public concern, we were able to call upon laboratory technicians from hospitals and universities to start testing for the virus. Having several hundred laboratory technicians test for West Nile as opposed to having only several do the job was certainly a much more sensible and effective public health strategy.

If something were to happen in the food and agriculture sector that would cause public alarm, then our current system simply would be inundated. FSIS has three regulatory sampling laboratories and they work great under normal conditions. However, we need the surge capacity to help us handle at least three potential likely scenarios. The first one would be a hoax—let's say someone or some organization claims they have contaminated the food supply, but have not. The second would be an actual attack on the food supply by an individual or group. The third would be an outbreak stemming from an act of Mother Nature. In all three cases, there would be mass public concern and significant economic consequences. In the last two cases, there could potentially be hundreds, perhaps thousands, of people getting sick and dying. The sad reality is that we do not at this time have a laboratory system effec-

tive enough to handle the surge capacity if one of these three scenarios were to happen today or tomorrow.

This is why FSIS' \$13 million request for FERN will help provide participating laboratories with the necessary training, laboratory equipment and supplies so that we can handle surge capacity and achieve the other three objectives I mentioned earlier. From a public health standpoint, an investment in FERN is an absolute essential priority if we want to prevent, or mitigate, the loss of life and economic hardship if an intentional or unintentional incident affecting the food supply were to happen.

FISCAL YEAR 2007 BUDGET REQUEST

I appreciate having the opportunity to discuss a number of FSIS' accomplishments and priorities with you. Now, I would like to present an overview of the fiscal year 2007 budget request for FSIS.

Implementation of these budget initiatives is imperative to helping us attain FSIS' public health mission. In fiscal year 2007, FSIS is requesting an appropriation under current law of \$862.9 million.

Supporting FSIS' Basic Mission

The FSIS budget request for fiscal year 2007 supports the Agency's basic mission of providing continuous food safety and inspection in each meat, poultry, and egg products establishment in the United States.

The Agency's permanent statutory obligation is to provide continuous inspection of meat, poultry, and egg products is a labor intensive mandate, thereby making its salary cost relatively inflexible. An increase of \$16 million for the FSIS inspection program is requested to provide for the 2.2 percent pay raise for FSIS employees in fiscal year 2007 to assure that the Agency is provided sufficient funds to maintain programs. Failure to provide the full amount for pay and benefit costs jeopardizes the effectiveness of FSIS programs and weakens food safety.

We also seek an increase of \$1.9 million for Agency efforts to support the President's Management Agenda in the area of IT. As I pointed out earlier, the Agency is seeking ways to have electronically stored information from all FSIS personnel integrated and available in real-time. This would allow inspectors ready access to information necessary to protect the public health.

As I mentioned several times, as someone with a medical background, I view the bottom line of preventing foodborne illness and saving lives very stringently. My focus is on prevention, and I believe the request for increases of \$2.6 million for risk-based inspection and \$15.8 million for food and agriculture defense will move us where we need to be to further enhance public health protection.

In order to facilitate cross-agency coordination of information, FSIS seeks an increase of \$600,000 for International Food Safety in order to link to the International Trade Data System managed by the Department of Homeland Security's Customs and Border Protection.

User Fees

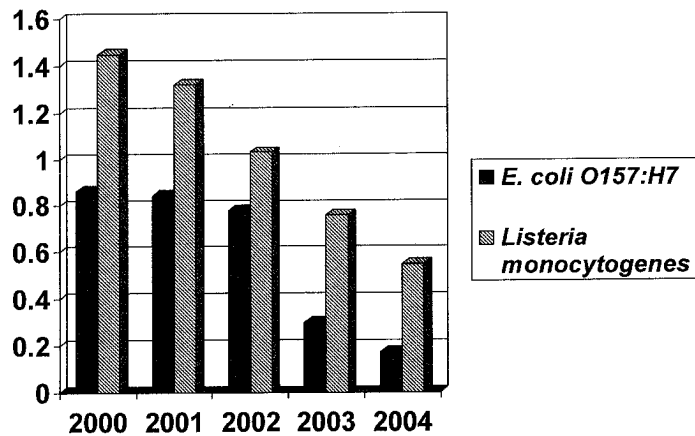
Inspection services for the cost of Federal meat, poultry and egg products during all approved shifts are now paid with Federal funds. Legislation will be re-submitted to Congress, which would provide USDA with the authority to collect fees for inspection services beyond one eight-hour shift per day, saving significant Federal costs by transferring these costs to the industries that directly benefit from services performed. New industry costs would be a small fraction of one cent per pound of production, but would allow FSIS to ensure a safe food supply. Of the \$862.9 million requested in the fiscal year 2007 budget, \$105 million is proposed to be derived from these user fees.

CLOSING

We will continue to engage the scientific community, public health experts, and all interested parties in an effort to identify science-based solutions to public health issues to ensure positive public health outcomes. It is our intention to pursue such a course of action this year in as transparent and inclusive a manner as is possible. The strategies I discussed today will help FSIS continue to pursue its goals and achieve its mission of reducing foodborne illness by protecting public health through food safety and security.

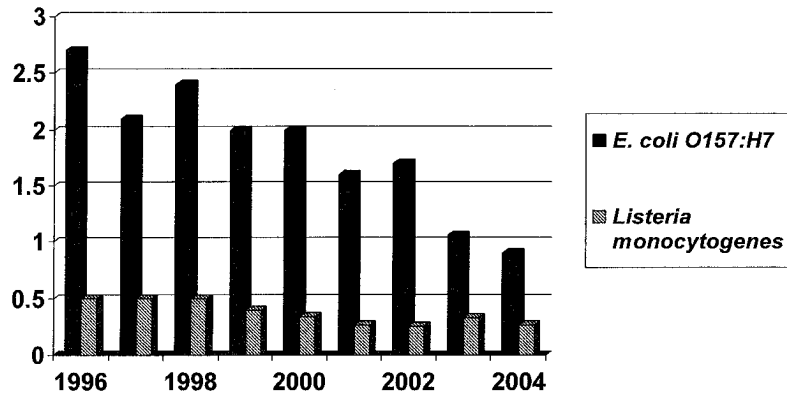
Mr. Chairman, thank you again for providing me with the opportunity to address with the Subcommittee and submit testimony regarding the steps that FSIS is taking to remain a world leader in public health. I look forward to working with you to improve our food safety system, ensuring that we continue to have the safest food supply in the world.

Declines in Positive Regulatory Samples for *E. coli* O157:H7 and *Listeria Monocytogenes*



Percentage of Positive Regulatory Samples

Decreases in Foodborne Illnesses Since 1996-98 Baseline



1996-2004 FoodNet Foodborne Illness Incidence Data
(Cases per 100,000 persons)

PREPARED STATEMENT OF DR. BARBARA J. MASTERS, ADMINISTRATOR, FOOD SAFETY AND INSPECTION SERVICE

Mr. Chairman and members of the Subcommittee, I am pleased to be here today as we discuss public health and the U.S. Department of Agriculture's (USDA) fiscal year 2007 budget request for the Food Safety and Inspection Service (FSIS).

This year marks the 100th anniversary of the passage of the Federal Meat Inspection Act (FMIA), which ushered in a new era of food safety on the national level. Although FSIS was established under its current name by the Secretary of Agriculture on June 17, 1981, our history dates back prior to 1906. Our mission is to ensure that meat, poultry, and egg products distributed in commerce for use as human food are safe, secure, wholesome, and accurately labeled. FSIS is charged not only with administering and enforcing the FMIA, but also the Poultry Products Inspection Act (PPIA), the Egg Products Inspection Act (EPIA), portions of the Agricultural Marketing Act, and the regulations that implement these laws.

At FSIS, we are committed to the idea that an effective food safety and food defense system must be rooted in science. To meet its goal of protecting public health, FSIS will continue to review policies and regulations in light of what the science demands. We will also work with interested parties to modernize and enhance our inspection and food safety and defense verification efforts. All of this is necessary if we are to fulfill our public health mandate and stay ahead of the evolving threats to America's food safety.

I am pleased to report that progress is being made in measurable and significant ways. An effective gauge of how our scientific policies are working is looking at how public health is positively impacted. Our efforts are clearly on the right track, as evidenced by the decline in foodborne illness over a recent 6-year span. For instance, the Centers for Disease Control and Prevention (CDC) last spring reported continued reductions in foodborne illnesses from 1996–1998 through 2004 stemming from *E. coli* O157:H7, *Listeria monocytogenes*, *Campylobacter*, and *Yersinia*. The report indicates that reductions in foodborne illness reported in 2003 were not an isolated event and that sustained progress is being made toward reducing illness from very dangerous foodborne pathogens.

While these reported declines in foodborne illness are dramatic, we believe more can—and will—be done. We will realize further progress in the food safety dynamic by implementing a more robust, risk-based inspection system.

The foundation of this system will be the ability to anticipate and quickly respond to food safety challenges before they have a negative impact on public health. While FSIS incorporates risk assessments in our approach to food safety, our goal is to further strengthen the system so that inspection program personnel may more effectively anticipate problems before they happen. A more robust, risk-based inspection system will ensure that our Agency's resources are used in the most effective and efficient way possible. We need a more robust system to help us meet future food safety challenges, some of which are either evolving or unknown today. An optimal risk-based inspection system is what FSIS is striving to achieve, and it will continue to guide our activities in fiscal year 2007.

Ensuring the safety of America's meat, poultry, and egg products requires a strong infrastructure. To accomplish this task, FSIS has dedicated public health servants stationed throughout the country and in laboratories, plants, and import houses everyday. In fiscal year 2005, the Agency had approximately 7,600 full-time personnel protecting the public health in 5,870 Federally-inspected establishments nationwide. FSIS inspection program personnel performed ante-mortem and post-mortem inspection procedures at 1,700 slaughter establishments to ensure public health requirements were met in the processing of 140 million head of livestock, 9.4 billion poultry carcasses, and about 4.3 billion pounds of liquid egg products. In fiscal year 2005, FSIS inspection program personnel also conducted over 8 million procedures to verify that establishments met food safety and wholesomeness requirements. In addition, during fiscal year 2005, approximately 4.3 billion pounds of meat and poultry and about 8.4 million pounds of egg products were presented for import inspection at U.S. ports and borders.

In an Agency the size of FSIS, with employees stationed all around the country, it quickly became apparent to me that effective communication was central to our mission. I have made improved communication a major priority, and we have greatly enhanced our communications tools including a redesigned, consumer-friendly Website; the debut of an Intranet for employees where they can access important and vital information; the launch of "all-employee" meetings via Web-cast; and more regular communications from the Administrator's office to the field. We continue to work on communications enhancements in order to ensure our entire workforce remains fully knowledgeable about the Agency's mission and goals.

Fulfilling our public health mandate to ensure a safe and wholesome food supply is a demanding responsibility and an exciting challenge. I would like to thank you for providing FSIS with the resources to protect meat, poultry, and egg products. For fiscal year 2006, FSIS received \$837.7 million (\$829.4 million after rescission), and these funds are helping to move the public health agenda forward. For instance, for fiscal year 2006, Congress approved \$2.2 million in additional funds for frontline inspection. This funding is enabling us to hire additional supervisory consumer safety inspection personnel, thus freeing up time for Public Health Veterinarians to focus on more complex and demanding food safety projects such as conducting food safety assessments and focusing on the design of food safety systems. Further, the additional funding you have provided us in the area of food defense has helped the Agency in further developing our response to contamination of the food supply, whether intentional or accidental. I will provide additional information on both these subjects later in this document.

Today, I would like to share with you how we will further implement a more robust, risk-based inspection system, as well as some of our leading pathogen control efforts; our enhanced outreach to small and very small plants; our workforce training initiatives; our food defense activities; and our public health communications programs.

FSIS' Six Priorities

First, I want to reiterate that the Agency operates under six operational priorities, which I first shared with you 2 years ago. FSIS continues to hold itself accountable for improving public health. When we established these priorities, we outlined a series of actions to enable us to better understand, predict, and prevent contamination of meat and poultry products to improve health outcomes for American families. Since then, we have been building upon these priorities, all equally important, and continue to improve the Agency's infrastructure with a greater attention to risk so that we can continue improving our performance under the public health model. I should note that even though our priorities remain the same, we are constantly raising the bar so we can move forward to enhance public health protection. These priorities are building the infrastructure for further implementation of a more robust, risk-based inspection system.

Continuing Evolution of Inspection and Enforcement: The Three Pillars

The first major initiative I want to discuss today is the continuing evolution of inspection and enforcement. The evolution of inspection and enforcement is most closely aligned to our building a more robust, risk-based inspection system. (See Attachment.)

This process can best be described by an illustration we have often used at FSIS. Namely, a more robust, risk-based system is a major structure built on a strong foundation with three pillars providing support. The pillars, taken together, maintain the system's integrity. The three pillars are: industry, FSIS personnel, and consumers.

The Hazard Analysis and Critical Control Point (HACCP) system is the core of the industry pillar, and FSIS has a vital role in educating, as well as regulating industry's ability to achieve a positive outcome. Industry, for its part, is responsible for designing and implementing an effective food safety system. In this regard, we have been enhancing our outreach efforts, especially to small and very small plants, which I will describe later in this document.

The FSIS personnel pillar is necessary so that we can collect, assess, and respond to public health data. Our verification must be uniform and consistent, especially in areas of greatest risk. Under a more robust, risk-based inspection system, we must use science as our guiding principal. In other words, we follow the core functions of the public health model—assessment, policy development, and assurance. Thus, the type and intensity of inspection at each plant would be determined by an analytical process which allows our inspectors to foresee problems so they can focus their efforts at plants and in processes that pose a public health risk. But in order to reach this point, we must develop a new system that will allow us to collect, assess, and respond to public health data. This need is emphasized in our budget request.

The third pillar is one which represents consumers. Consumers—including all of us here today regardless of title—need to have confidence in a safe and well-defended food supply.

As we move towards a more robust, risk-based inspection system, our goal is to ensure that we receive input from all stakeholders (industry, employees, and consumers) along every step of the process. We need to ensure that all food safety part-

ners are aware of the expectations and goals and have had the opportunity to provide input in moving towards a more robust, risk-based inspection system.

Risk-Based Pathogen Controls

FSIS' *Listeria monocytogenes* verification sampling is a good example of how we have taken a more risk-based approach in processing plants. Under this initiative, FSIS tailors its verification activities to the interventions that plants choose to adopt and to the potential for *Listeria monocytogenes* growth in their products. In other words, FSIS conducts less sampling in those plants that have the best *Listeria monocytogenes* control programs and more sampling in plants that adopt less vigorous programs. Thus, plants have an incentive to do more to control *Listeria monocytogenes*.

Considering all the progress that has been made in reducing *Listeria monocytogenes*, *E. coli* O157:H7, *Campylobacter*, and other pathogens, FSIS believes that it is time to enhance the risk-based approach to investigating and controlling the incidence of *Salmonella* in meat, poultry, and egg products. *Salmonella* is the most frequently reported foodborne illness in the United States, causing culture proven cases of foodborne illness at a rate of 14.7 per 100,000 population. The Department of Health and Human Services' (DHHS) Healthy People 2010 calls for a rate of *Salmonella* infections of 6.8 per 100,000 population. We have a long way to go.

Salmonella includes over 2,300 serotypes, all of which are considered pathogenic in humans. Although most of the reported cases in the United States are associated with a relatively small number of serotypes—some of which are commonly found in raw meat and poultry products—there has been increasing concern about outbreaks attributed to relatively rare strains of *Salmonella* resistant to multiple antibiotics.

While the Agency responds quickly to positive findings of *Salmonella* linked to human illness at any establishment, our risk-based *Salmonella* approach for raw product would help us be proactive before human illness is associated with our regulated products rather than reactive. It is essential that FSIS proceeds with its new *Salmonella* performance measure because it more accurately reflects Agency performance in reducing foodborne illness and plant performance in reducing the pathogen in its processes. Our risk-based *Salmonella* approach would also provide us with an early warning capability for the high-risk *Salmonella* serotypes from meat, poultry, and egg products in particular geographic areas.

Our budget request would allow us to fully characterize isolates; initiate a Food Safety Assessment at a high-risk establishment before an outbreak occurs rather than as part of the investigation of why an outbreak has occurred; conduct more testing in areas where a cluster of serotypes is identified to determine if an unusual prevalence is occurring; and continually feed to CDC and State public health officials any data concerning patterns. We are requesting \$602,000 for this risk-based *Salmonella* approach.

In many ways, our foundational work has already started. We held public meetings to work with our stakeholders to find ways to reduce food safety hazards. In August 2005, for example, we held a public meeting on Advances in Pre-Harvest Reduction of *Salmonella* in Poultry in Athens, Georgia. The meeting, with over 208 participants, focused on research and practical experiences aimed at reducing *Salmonella* at the poultry production level, or before poultry reaches Federally-inspected plants. Based on input from the meeting and other information available to us, we are developing compliance guideline materials for producers that address pre-harvest food safety and *Salmonella* control. We held a second public meeting on February 23 and 24, 2006, in Atlanta, Georgia, which outlined new approaches to in-plant controls for *Salmonella*. Approximately 150 attended the meeting, with close to 100 joining the meeting by phone or netcast; the netcast was available both days. This meeting discussed new FSIS actions for encouraging industry to control *Salmonella*. Both of these meetings served as important steps in our foundational work.

Funding Progress

As a more robust, risk-based inspection system is the Agency's number one priority, we are requesting \$2.6 million for this risk-based effort in fiscal year 2007. I will go over in more detail the specific funding needs for these efforts later when I review our budget request. However, it is worth highlighting here the following ways in which the Agency will prepare for the further evolution of the risk-based system through the improvement of Agency support:

- \$602,000 *Salmonella* risk-based inspection system approach described above.

- Advance risk-based inspection in processing establishments through reprogramming databases to better assess plant data to determine where to sample based on risks to public health.
- Development of risk-based verification strategies for meat, poultry, and egg products in commerce that can be used by FSIS personnel. We will collaborate with State, local, and public health officials at the retail level to determine strategies for enhanced consumer protections within our regulatory framework. These activities would complement inspection activities performed in-plant.
- Use of data to base policies and regulations for inspection on information obtained that defines measures taken by establishments to reduce foodborne risks and the efficacy of measures implemented to reduce risk, e.g., pathogen reduction interventions.
- Use of new technologies to increase the effectiveness of the risk-based inspections that inspectors perform including such things as rapid tests for residues and microbes.

Training, Education, and Outreach

The next priority I want to discuss is training, education, and outreach. Training is the foundation of our public health successes and a key element in our strategy to meet the Healthy People 2010 goals. All employees need to be equipped with the knowledge and technical expertise to operate within a public health framework, and the Agency has made great strides in achieving a well-trained workforce that is not only able to identify threats to the public health, but also to anticipate possible threats. We continue to have a need for training and are moving beyond the entry level and basic HACCP training provided to our workforce. As new employees join the Agency, they still require the basic training. With ongoing changes in policy, and as we move to a more robust, risk-based inspection system, new training and refresher training will be needed by all employees. Additionally, we are beginning to explore intermediate and advanced training opportunities for our employees. Based on new, innovative ways of reaching our employees, the Agency is using its existing budget to conduct this training.

It has been easier to reach our employees and provide them training with the implementation of our regional training system to deliver vital training courses closer to employees' worksites. This innovative program ensures that our workforce receives critical scientific training in a timely manner. Providing this training efficiently and effectively has been a key element in the on-going reductions of foodborne pathogens.

Due to improvements FSIS has made to its training program, 100 percent of those hired as entry-level employees, as well as those who are promoted into inspection and enforcement occupations, now receive mission-critical training within 1 year of entering Agency duty. Many of these employees will receive the training within the first 6 months of being hired, or sooner.

FSIS' Food Safety Regulatory Essentials (FSRE) training program has equipped inspection program personnel in verifying an establishment's HACCP system. Customized HACCP training is then provided, based on the types of products being produced at the establishments where inspectors are assigned. Approximately 1,400 FSIS employees received FSRE training in fiscal year 2005, and an additional 1,200 are slated to complete this customized job-training program this fiscal year. We continue to provide specialized training to our Public Health Veterinarians (PHVs), and this year, for the first time, this training will be required as a condition of employment, meaning that employees must successfully complete the curriculum in order to remain in our workforce. Since being launched in fiscal year 2004, over 230 PHVs have received the 9-week classes. We plan to hold eight PHV training classes this year, reaching nearly 200 people.

We are also partnering with other Federal agencies to leverage resources for training. FSIS PHVs are trained to identify signs and symptoms during ante-mortem and post-mortem inspection that could potentially signify the presence of a foreign animal disease or suspicious condition, and they learn the appropriate response and reporting procedures. Working closely with our sister agency, the Animal and Plant Health Inspection Service, we are developing a training module on this issue that is available anytime, anywhere through the Department's AgLearn system. The course is also currently available through CD-ROM.

In addition, we recognize that we employ individuals who must maintain their professional licenses. That is why we became a certified continuing education units outlet so that many of our courses can be utilized by the PHVs to obtain continuing education credit.

FSIS is also in the midst of a comprehensive, multi-year training and education effort designed to ensure that every FSIS employee fully understands their role in

preventing, or responding to, an attack on the food supply. Efforts began in fiscal year 2002 with food defense awareness training for supervisors. Since then, we have expanded with contracted anti-terrorism training that was provided to more than 5,000 field and headquarters employees. Food defense awareness training is also being conducted with local partners, such as State and local inspectors, in a cooperative effort with other Federal agencies (Food and Drug Administration, USDA/Food and Nutrition Service, and USDA/Agricultural Marketing Service).

With a regional approach to training, we have been able to deliver training faster and more efficiently to employees entering mission-critical occupations. Through e-learning techniques, we have been able to distribute training materials more rapidly to the workforce on vital issues such as bovine spongiform encephalopathy (BSE) policy. Through a policy of training as a condition of employment, we have also been able to ensure that all employees have the competencies to perform successfully. The regional approach also allows us to better leverage our resources so that our trainers can also provide outreach and education to small and very small plants, as well as in the course of interacting with their FSIS colleagues.

FSIS is exploring a wide range of methods to reach its geographically dispersed workforce with on-going training updates. The newest vehicle FSIS has used is netcast. Most recently, Export Verification training was provided to inspection program personnel via netcast at establishments that produce beef products for export under Export Verifications programs.

We know that for a more robust, risk-based inspection system to be successful then all plants must have well-designed, food-safety systems. To that end, we have been enhancing our outreach efforts, especially to small and very small plants, to ensure everyone is meeting the same requirements. We are significantly changing the dynamic of our workforce in order to improve our outreach efforts in this area. It is clear to us from our existing communication efforts that effective outreach can lead to important changes in food safety designs by industry. Small and very small plants are also part of the industry pillar that supports a more robust, risk-based inspection system, and any performance gaps that exist between them and the larger plants needs to be closed.

One method we know is succeeding in this area is our actions following Food Safety Assessments (FSA), which have remained consistent over the past 3 years. For example, out of 1,501 FSAs conducted in 2005, 912 of the establishments were found in compliance. We believe we have a vital role in educating and regulating industry to achieve this outcome, so we are assessing all aspects of our industry outreach. In 2005, we held outreach and listening sessions with small and very small plants in Montana and California. Early this year, we held two more in Pennsylvania. From these sessions, we are gathering critical feedback to ensure plants do not fall behind in HACCP implementation.

FSIS recognized, based on responses and comments from the outreach/listening sessions, the need to update its outreach strategy from one focused on initial development of a HACCP plan, to one that is geared towards the scientific basis of the HACCP plan. In other words, we need to shift from "execution" of HACCP plans to "design" of those plans. FSIS especially wants to continue to work with small and very small plant owners and operators so they can continue to enhance the design of their food safety systems.

Ultimately, making certain that the Nation's food supply is safe makes good business sense, as well as good public health. We realize plant owners and operators must have the necessary tools for success, so education through outreach is an important focus for us. Likewise, plant owners and operators must seek this education and these tools and follow them. If educational or training opportunities are repeatedly ignored then we have made it clear that public health is our responsibility and we will take regulatory action as necessary.

Most recently, the International HACCP Alliance hosted a strategy session attended by senior-level FSIS employees to discuss and discover the needs business owners, especially those of small and very small plants, have in relation to fully implementing HACCP. Both Dr. Raymond, Under Secretary for Food Safety, and I attended the meeting to show how important and valuable we view these sessions. The recommendations from this session are being included as part of an implementation plan by a group of senior-level FSIS employees. While the implementation plan is not yet finished, I can tell you that a uniform, consistent, and effective message regarding food safety regulations is a critical deliverable on the part of the Agency.

Consumer Education Initiatives

In the area of consumer education this year, the Food Safety Mobile played perhaps our most prominent role when it visited the Hurricane-ravaged Gulf Coast re-

gion. This eye-catching “food safety educator-on-wheels” brings important public health information to consumers and builds on our partnerships in grassroots communities across the country. Through the Food Safety Mobile, FSIS is sharing its food safety message with the public, especially culturally diverse and underserved populations and those with the highest risk from foodborne illnesses. In addition to dispensing important food safety tips in areas hit with power outages and water damage, the Food Safety Mobile distributed food safety brochures, bleach, hand wipes, and thermal bags. During its two-and-one half month tour of the Gulf States, the Food Safety Mobile reached nearly 41,000 total consumers face-to-face. In fact, the Food Safety Mobile was so successful that a second mobile was launched in October 2005, appearing at 18 events in 11 additional cities in Texas and Louisiana following Hurricane Rita. Food Safety Mobile II reached an additional 15,000 consumers affected by the hurricanes.

In another inter-agency collaborative effort to educate about the importance of food safety, FSIS is cosponsoring with the DHHS’ Food and Drug Administration (FDA), CDC, and private sector organizations an international food safety education conference this September, focusing on reaching at-risk audiences. An unprecedented effort, the goals of the conference include sharing current surveillance and epidemiological data on foodborne illness; presenting strategies leading to enhanced food safety knowledge, skills, and abilities in the general population and among at-risk populations; and to communicate the latest science-based safe food handling principles and practices.

Food Defense

The third priority is our substantial effort to continue to improve our food defense capabilities. The Agency has accomplished much in the area of food defense, making a strong system even stronger. The name of the office which handles this important area was changed from the Office of Food Security and Emergency Preparedness to the Office of Food Defense and Emergency Response. This reflects the fact that we have restructured the office to focus on developing strategies to protect and defend the food supply from intentional contamination and to respond to both intentional acts of adulteration, as well as large scale food emergencies.

Last year, FSIS developed four model food defense plans, which are available on our website. These models are designed to assist Federal- and State-inspected meat, poultry, and egg products establishments, as well as import facilities, to develop their own defense measures to deter the threat of intentional contamination or similar attacks on the food supply. During 2005, the Agency held workshops on these plans in Dallas, TX; Oakland, CA; Chicago, IL; and Philadelphia, PA. In addition to webcasting the Oakland and Philadelphia workshops, FSIS also conducted four additional web casts to ensure that as many people as possible had the opportunity to participate. Two of these webcasts were targeted specifically to State officials, and the Agency also partnered with the University of Puerto Rico in holding an entire webcast in Spanish, which also drew participants from Latin America. In all, it is estimated that these workshops reached over 1,200 people.

The model food defense plans have been issued in the form of guidance documents and are voluntary. However, FSIS believes that every establishment should have a written plan that describes and documents controls to ensure that the premises are defended from potential threats.

FSIS continues to assess vulnerabilities in the food supply. The Strategic Partnership Program on Bioterrorism, a program including the Federal Bureau of Investigation, FDA, and Department of Homeland Security (DHS), along with FSIS and other USDA agencies, carries out joint vulnerability assessments on the food supply with industry and States, and we have been working in conjunction with the CDC, the FDA, epidemiologists, and public health laboratories in several States through the FoodNet and PulseNet programs. FSIS is also conducting an assessment of vulnerabilities of the food supply from illegally imported products.

The majority of the \$15.8 million increase in our fiscal year 2007 food and agriculture defense budget request focuses on the Food Emergency Response Network (FERN). FERN is a joint FSIS–FDA effort of national, State, and local laboratories to provide ongoing surveillance and monitoring of food and to promptly respond to an intentional contamination that targets the Nation’s food supply, or a foodborne illness outbreak brought about by Mother Nature. To date, \$4 million in funding allocated in fiscal year 2005 and fiscal year 2006 has been used to build on the expertise of the Federal, State, and local laboratories that are now part of FERN, and these laboratories are currently conducting method development for testing and performing proficiency testing. FERN has also established five Regional Coordination Centers that serve as the primary points of contact for laboratories across the country.

This effort enables FSIS to utilize State and local laboratories in handling the numerous samples required to be tested in the event of an attack on the food supply, a natural outbreak, or even a hoax, involving a meat, poultry, or egg product. It is vital for the Agency to respond rapidly to such emergencies to not only protect the public's health, but also to ensure public confidence in the safety of the food supply and to prevent an economic collapse in the meat or poultry industries. The first line of this rapid response is the laboratories, which must be provided with training, methodology, and state-of-the-art laboratory equipment. Ultimately, our goal is to have 100 State and local laboratories actively testing the food supply for FERN, like the 18 FSIS-affiliated biological and eight FDA-affiliated chemical laboratories with which FERN now has cooperative agreements.

Another important example of inter-agency cooperation, and one that is designed to allow the FERN labs to test methods and proficiency, is a joint project between USDA's Food and Nutrition Service, Agricultural Marketing Service (AMS), and FSIS. Product samples will be taken from facilities in four States that provide ground beef to the National School Lunch Program. FSIS labs will test those samples for threat agents, in addition to the regular pathogen testing that is performed by AMS. Then, once that product has been sent to warehouses, it will then be re-tested for the same threat agents by non-FSIS labs in the FERN network that have a cooperative agreement with the FERN network. The project will be held later this year and is the first one to focus on FSIS-regulated products. Earlier projects held in November and December of 2004 tested FDA-regulated products.

Risk Analysis

Fourth, is our risk analysis priority—which includes risk assessment, risk management, and risk communication. This is an extremely important process, one that provides FSIS with a way to focus resources on hazards that pose the greatest risk to public health.

A good risk assessment needs good data in order to be effective. Therefore, we are conducting a series of nationwide baseline studies that will help determine the levels of various pathogenic microorganisms in raw meat and poultry. These baseline studies are designed to provide FSIS and the regulated industry with data concerning the prevalence and quantitative levels of selected foodborne pathogens and microorganisms that serve as indicators of process control.

The first baseline study, which began in August and will continue to December 2006, is for *E. coli* O157:H7 and indicator organisms in beef trim and subprimals. Data from this study will guide Agency decisions on performance standards and allocation of inspection resources. In September of last year, a contract was awarded to a third-party laboratory to perform the microbial analyses for future baseline studies on: young chicken carcasses, ground chicken, and swine carcasses. From this, a new baseline study for young chicken carcasses will be initiated within the next few months. The young chicken baseline will include prevalence and quantified levels for both *Salmonella* and *Campylobacter*. This scientific information will allow FSIS to make the decisions necessary to move to a more robust, risk-based inspection system.

Regarding BSE, USDA has contracted with Harvard University to update its risk assessment to ensure previous measures implemented through the interim final rules were appropriate. USDA is drafting a final rule based on the comments received on the interim final rule, the results of the updated Harvard Risk Assessment and results of the USDA enhanced surveillance program.

During the past year, FSIS assumed the Chair of the USDA Food Safety Risk Assessment Committee (FSRAC), whose purpose is to enhance communication and coordination among USDA agencies, to promote sound risk assessments in support of food safety policy, and regulatory decisions. FSIS also became the co-lead for the Interagency Risk Assessment Consortium to share information and coordinate food safety risk assessment approaches among 18 Federal agencies, including DHHS, the Department of Defense, and the Environmental Protection Agency.

Management Controls and Efficiency

Our fifth priority is management controls and efficiency, which is a priority we added as a mechanism to best achieve our operational goals and objectives within each program area. Every task undertaken by the Agency has an effect on public health. Because of this, we are requiring each program area to illustrate through documentation that they are meeting their established goals.

In order to ensure that proper management controls are implemented, FSIS' Office of Program Evaluation, Enforcement, and Review (OPEER) branch will audit all Agency program areas to measure the outcomes. In fiscal year 2005, the Agency began development of a two-phase management control audit protocol and agenda

to systematically verify and evaluate management controls. Phase 1 will verify the implementation of the management controls for each program area; Phase 2 will verify that each program is achieving its objectives, and that their controls are adequate and are achieving the program's desired results.

During fiscal year 2005, we developed and implemented management controls that established operational performance standards for verification of HACCP requirements, ante-mortem/post-mortem requirements, Food Safety Assessments, administrative enforcement actions, food defense verification, and recall procedures.

FSIS launched the AssuranceNet project team in fiscal year 2006. This team is developing a state-of-the-art management control reporting system that will tie into key Agency databases. The AssuranceNet team collects information on Agency management controls and the items the Agency needs in the way of a reporting tool. The team is working with Agency technical staff and outside contractors to develop the system according to industry standards and best practices. The AssuranceNet system will undergo extensive real world testing before it becomes fully available for use in June 2006.

An area of management efficiency which we at FSIS emphasize is human resources (HR) modernization and reform. In 2004, FSIS launched an initiative to reshape the HR system to better support our human capital and strategic plans and to facilitate every-day mission performance. The resulting internal work group has developed innovative HR practices that can be implemented under current law, as well as identifying innovations that require Federal legislation or regulatory changes. We stand committed to the belief that the Agency requires an alternative HR system that emphasizes pay-for-performance.

Public Health Communications Infrastructure

Our sixth priority is the public health communications infrastructure with the ability to collect, assess, and respond to data in real-time. Because this is also a foundation of a more robust, risk-based inspection system, we are constantly looking for ways to improve communication within the Agency, between the Agency and its stakeholders, as well as cross-Agency communications. FSIS is examining its data needs to make our field operations more effective. Having the same data from the border, the districts, and field and laboratory personnel at the same time is essential so that everyone can connect the dots and proactively respond to this wealth of information rather than just react after a problem surfaces. Proactively interpreting our data will better protect public health from the prospect of non-intentional or intentional contamination. By collecting, assessing, and responding to data in real time, lives can be saved.

A key part of this process is through the effective management of information technology (IT). Through an Enterprise Architecture Working Group, we have been working closely with the Office of Management and Budget (OMB) and others involved in the Federal-government wide e-Government efforts to develop IT systems that facilitate cross-Agency analysis and identification of duplicative investments, gaps and opportunities for collaboration within and across agencies.

Another way we are working to enhance cross-Agency communication in fiscal year 2007 is to create electronic linkages with the Department of Homeland Security's Customs and Border Protection's International Trade Data System in order to provide FSIS with a stronger ability to screen and verify the security of products imported into the United States in an efficient way. FSIS is also working with its Federal partners through the Federal Health Architecture initiative to build a system that all Federal agencies can communicate through to better protect imported products.

On the Agency level, FSIS is working to have electronically stored information from all FSIS personnel integrated and available in real-time, allowing managers and administrators to make management decisions more efficiently as events are unfolding and with greater access to information. This is necessary for our inspection program personnel to do their jobs properly and effectively and to react more rapidly in a crisis to better protect public health and save lives. An example of this was shown in a recent test of an updated version of our Consumer Complaint Monitoring System (CCMS). When implemented later this year, this new version of CCMS will include improved scientific tools to enable us to act more quickly to prevent further foodborne illness. In one scenario, as we were testing this new version of CCMS, we were able to find an E. coli O157:H7 outbreak 3 weeks faster than with our present technology. FSIS is partnering with States to integrate this system so that this real-time data could be accessed and shared by all to help prevent outbreaks and/or limit their scope. Other aspects would also include procuring PDA-type hardware and related software integrating into existing Agency computer and

communications equipment for inspection program personnel. It also includes keeping up with rapid changes in microcomputer technology.

We believe these efforts to improve upon the Agency's IT systems will greatly enhance the Agency's efforts to support the President's Management Agenda, and move us towards more efficient e-Government solutions to the challenges we face.

InsideFSIS Debuts

Other ways that we have improved our communications includes InsideFSIS, the Agency's employee intranet which was launched in June. With InsideFSIS, employees are able to gain instant access to important Agency information and may participate in netcasts, as was the case with a State of the Agency meeting held in September last year. We also have an extensive food handlers' education program that encompasses everything from bilingual pamphlets on using thermometers to our Food Safety Mobile.

I have already mentioned the prominent role the Food Safety Mobile played on the hurricane-ravaged Gulf Coast, but the Food Safety Mobile was not the only way the Agency played an important role in our strategy to respond to the hurricanes. Prior to both hurricanes' landfalls, FSIS issued videotaped consumer alerts with food safety tips following a power outage or flood that were satellite broadcast to media outlets in Alabama, Louisiana, Georgia, and Florida. In addition, the Agency's Meat and Poultry Hotline began 24-hour service to handle any food safety questions from consumers. Our outreach to American consumers continued into September, when FSIS recorded and distributed public service announcements offering food safety tips.

Fiscal Year 2007 Budget Request

I appreciate the opportunity to discuss FSIS' priorities with you. Now, I would like to present an overview of the fiscal year 2007 budget requests for FSIS. These budget initiatives are vital to helping us attain FSIS' public health mission, as outlined by our priorities. In fiscal year 2007, FSIS is requesting an appropriation of \$862.9 million.

Risk-Based System

FSIS is seeking a total increase of \$2.6 million for the improvement of Agency support for risk-based inspection and risk-based Salmonella control. We are requesting \$1.9 million for Agency support of risk-based inspection. Finally, for our risk-based Salmonella approach, we are requesting \$602,000.

Food and Agriculture Defense Initiative

The fiscal year 2007 budget also requests a total increase of \$15.8 million for FSIS to support the Food and Agriculture Defense Initiative in partnership with other USDA agencies, the DHHS, and the Department of Homeland Security. Because food contamination and animal and plant diseases could have catastrophic effects on human health and the economy, the three Federal departments involved are working together on a comprehensive food and agriculture policy that will enrich the Government's ability to respond to the dangers of disease, pests, and poisons, whether natural or intentionally introduced. The total is broken down as follows:

Central to FSIS' food defense efforts is FERN, for which we are seeking an increase of \$13 million. These funds are critical to help FSIS provide participating laboratories with the necessary training, laboratory equipment and supplies so that we can handle surge capacity, whether from events stemming from a hoax, intentional acts or mother nature. From a public health standpoint, an investment in FERN is an absolute essential priority if we want to prevent, or mitigate, the loss of life and economic hardship if an intentional or unintentional incident affecting the food supply were to happen.

We are also requesting \$2.5 million for two data systems to support FERN—the electronic laboratory exchange network (eLEXNET), and a repository of analytical methods. The eLEXNET is a national, web-based, electronic data reporting system that allows analytical laboratories to rapidly report and exchange standardized data. This system is currently operational in nearly 100 food-testing, public health, and veterinary diagnostic laboratories across the country. The fiscal year 2007 budget request would make eLEXNET available to additional FERN and other analytical, food-testing laboratories. This will require eLEXNET system management, travel, on-site computer programming, and training.

Access to current, properly validated methods used for screening, confirmation, and forensic analysis is critical to all laboratories. For this reason, FSIS is working with FDA to develop a Web-based repository of analytical methods compatible to eLEXNET. Access to these methods will greatly enhance the ability of FERN and other laboratories to respond to emergencies, to use new methodologies and tech-

nologies, to enhance efficiency, and to trouble-shoot problems. The requested funding will be used to enhance the repository and to populate the repository with numerous methods that will be obtained from analytical laboratories.

Communication

In order to facilitate cross-Agency coordination of information, FSIS seeks an increase of \$600,000 for International Food Safety in order to link to the Import Trade Data System managed by the Department of Homeland Security's Customs and Border Protection. Currently, FSIS relies on the importer of record to present shipments for reinspection, and the lack of network linkages among import data systems maintained by different agencies contributes to a prolonged, sometimes incomplete rendering of product dispositions and document certification for imported meat and poultry products at U.S. ports of entry.

We are also requesting funds for Agency efforts to support the President's Management Agenda in the area of IT. As I pointed out earlier, the Agency is seeking ways to have electronically stored information from all FSIS personnel integrated and available in real-time. This would allow inspectors ready access to information necessary to protect the public health. For inspector communication enhancements, such as the PDA-type hardware for inspectors mentioned earlier, we are seeking \$615,000.

Our experience has shown that the originally postulated life cycle of 5 years for microcomputers delivered to the field inspection workforce is not practical, given the rapid pace of technological changes. To replace a 5-year lifecycle for computer hardware with a 3-year lifecycle, the Agency seeks \$1,271,000. This accounts for the approximately 4,000 microcomputers in the field. Our goal is to replace 1,300 to 1,400 computers annually.

Personnel Pay Increase

An increase of \$16 million for the FSIS inspection program is requested to provide for the 2.2 percent pay raise for FSIS employees in fiscal year 2007 to assure that the Agency is provided sufficient funds to maintain programs. Failure to provide the full amount for pay and benefit costs jeopardizes the effectiveness of FSIS programs and weakens food safety.

User Fee Proposal

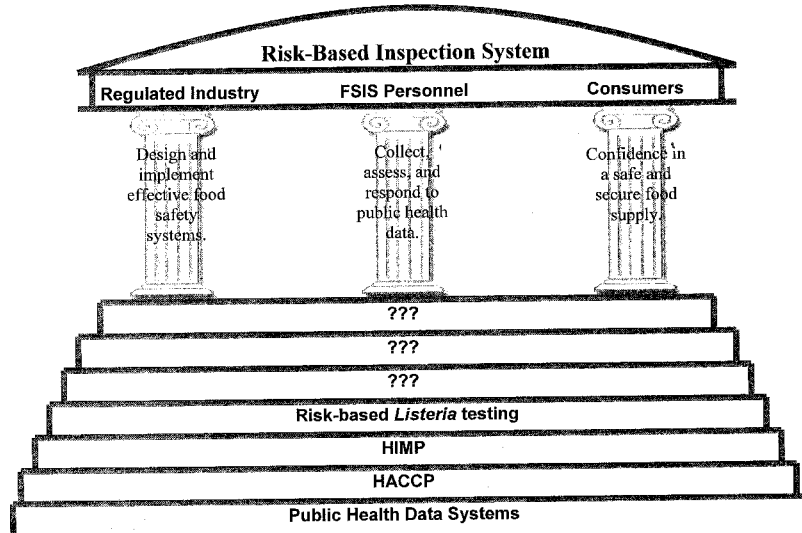
Once again this year, our budget repropose the implementation of a new user fee. As you know, inspection services for the cost of Federal meat, poultry, and egg products during all approved shifts are currently paid for with Federal funds, provided that the species or product is covered under our legislative authority. However, most plants run beyond one 8-hour shift per day. A fee for services beyond that would save significant Federal costs by transferring these costs to the industries that directly benefit from them. The proposed fiscal year 2007 savings are projected at \$105.4 million to reflect collections of receipts for three quarters of the year.

Closing

As we mark the 100th anniversary of the passage of the FMIA, FSIS will continue to engage the scientific community, public health experts, and all interested parties in an effort to identify science-based solutions to public health issues to ensure positive public health outcomes. It is our intention to pursue such a course of action this year, as we have in the past, in as transparent and inclusive a manner as possible. The strategies I discussed today will help FSIS continue to pursue its goals and achieve its mission of reducing foodborne illness, and protecting public health through food safety and defense.

Mr. Chairman, thank you again for providing me with the opportunity to speak with the Subcommittee and submit testimony regarding the steps that FSIS is taking to remain a world leader in public health. I look forward to working with you to improve our food safety system and ensuring that we continue to have the safest food in the world.

The Three Pillars of FSIS' Enhanced Risk-Based Inspection System



Senator BENNETT. Thank you. Dr. Lambert.

STATEMENT OF CHARLES LAMBERT

Mr. LAMBERT. Thank you, Chairman Bennett, Senator Kohl.

I am pleased to appear before you to discuss the activities of the Marketing and Regulatory Programs and to present our 2007 budget proposals.

With me today are Dr. Ron DeHaven, who is the Administrator of the Animal and Plant Health Inspection Service (APHIS); Mr. Lloyd Day, Administrator of the Agricultural Marketing Service (AMS); and Mr. James Link, who is the Administrator of the Grain Inspection, Packers and Stockyards Administration (GIPSA). And those are the three agencies that make up Marketing and Regulatory Programs (MRP).

In addition, Mr. Dennis Kaplan from the department's Budget Office is here with us.

MRP has addressed several broad goals and objectives to increase marketing opportunities and to protect American agriculture from damages caused by pests and diseases, both intentional and unintentional. The key to private sector financial success is relatively simple. First, offer high-quality products. Second, produce them at a competitive cost. And third, earn a fair price in the marketplace.

In relation to this, MRP has identified three areas for special attention to make American agriculture more competitive. They include protecting plant and animal health; ensuring quality; and continuing to work with the Department of Homeland Security to exclude agricultural health threats and with farmers and ranchers to control endemic pests and diseases once they are here.

Through MRP's commodity grading and inspection programs, we support producers in the marketing of high-quality crops and livestock.

Second is through enhancing market access by reducing technical barriers to trade. And third is harmonizing international standards by redoubling our efforts in a variety of international standard-setting organizations and working closely with our sister agencies to ensure that technical standards do not become technical barriers.

MRP activities are funded both by the taxpayers and beneficiaries of program services. The budget proposes that the MRP agencies carry out programs of close to \$2 billion, with \$412 million funded by fees charged to direct beneficiaries and \$450 million from customs receipts.

On the appropriation side, the President's budget requests about \$959 million for APHIS, \$85 million for AMS, and \$42 million for GIPSA.

The budget proposes user fees that, if enacted, would generate about \$42 million in savings to the U.S. taxpayer. The budget also includes a proposal to terminate the AMS Microbiological Data Program, given its limited use to determine the source of food-borne illnesses and other reasons.

PREPARED STATEMENTS

Mr. Chairman, the increases that you referred to are generally in the exclusion of foreign animal and plant diseases and pests and for enhanced monitoring and surveillance primarily related to avian influenza.

I look forward to working with the committee on the 2007 budget for marketing and regulatory programs. We believe the proposed funding amounts and sources of funding are vital to improving plant and animal health and ensuring quality and enhancing market access and achieving harmonization of international standards. It also works to reduce the deficit and protects American agriculture from terrorists.

We are happy to answer any questions. Thank you.
[The statements follow:]

PREPARED STATEMENT OF CHARLES LAMBERT

Mr. Chairman and members of the Committee, I am pleased to appear before you to discuss the activities of the Marketing and Regulatory Programs (MRP) of the U.S. Department of Agriculture and to present our fiscal year 2007 budget proposals for the Animal and Plant Health Inspection Service (APHIS), the Agricultural Marketing Service (AMS), and the Grain Inspection, Packers and Stockyards Administration (GIPSA).

With me today are Mr. Jeremy Stump, Acting Deputy Under Secretary for MRP; Dr. Ron DeHaven, Administrator of APHIS; Mr. Lloyd Day, Administrator of AMS; and Mr. James Link, Administrator of GIPSA. They have statements for the record and will answer questions regarding specific budget proposals.

MRP has addressed several broad goals and objectives to increase marketing opportunities and to protect American agriculture from damages caused by pests and diseases, both intentional and unintentional. The key to private sector financial success is relatively simple. First, offer the highest quality products. Second, produce them at the lowest possible cost. And, third, earn a fair price in the marketplace.

MRP helps American farmers and ranchers in several ways. AMS and GIPSA certify the quality of agricultural commodities and provide industry with a competitive edge earned by the USDA seal of approval for grading and inspection. APHIS protects the health of plants and animals, thereby keeping costs low. APHIS also provides plant and animal sanitary and phytosanitary (SPS) expertise during inter-

national negotiations to maintain and open markets around the world, and GIPSA works to ensure that livestock producers have a level playing field upon which to compete. A healthy and marketable product provides the foundation of competitive success.

MRP INITIATIVES

MRP has identified three areas for special attention to make American agriculture more competitive. They include:

Protect Plant and Animal Health and Ensure Quality.—MRP will continue to work closely with the Department of Homeland Security (DHS) to prevent the entry of foreign plant and animal pests and diseases through the Agricultural Quarantine Inspection Program (AQI). We will continue to work with farmers and ranchers to control endemic pests and diseases at minimal levels. Through MRP's commodity grading and inspection programs, we will support our producers in the marketing of their high quality crops and livestock.

Enhance Market Access.—Market access can be impaired through technical barriers and SPS measures. MRP will continue to work closely with international counterparts to educate them about our systems; to learn more about the foreign country requirements; and to certify that U.S. products meet their standards.

Harmonize International Standards.—MRP will continue to provide expertise in an effort to harmonize sanitary and phytosanitary measures. Since risk is inherent and fair trade relies upon the same standards being applied to all parties, MRP will increase its efforts with the World Organization for Animal Health and the International Plant Protection Convention to develop standards and processes for two-way trade to exist, with restrictions and mitigations based on science to reduce risk. Moving away from an "all or nothing" approach makes trade therefore less risky, as a localized or contained outbreak has fewer effects on exports and thus on the economy. In a similar vein, a level playing field in world markets depends on technical standards that describe the quality and other characteristics of agricultural products in a manner that does not discriminate against U.S. producers and shippers. MRP will redouble its efforts in a variety of international standard setting organizations and work closely with our sister agencies to ensure that technical standards do not become technical barriers.

FUNDING SOURCES

The MRP activities are funded by both the taxpayers and beneficiaries of program services. The budget proposes that the MRP agencies carry out programs of close to \$2 billion, with \$412 million funded by fees charged to the direct beneficiaries of MRP services and \$450 million from Customs receipts.

On the appropriation side, the Animal and Plant Health Inspection Service is requesting about \$953 million for salaries and expenses and \$6 million for repair and maintenance of buildings and facilities; the Agricultural Marketing Service is requesting \$85 million; and the Grain Inspection, Packers and Stockyards Administration is requesting \$42 million.

The budget proposes user fees that, if enacted, would generate about \$42 million in savings to the U.S. taxpayer. Legislation will be proposed to provide USDA the authority to recover the cost of administering the Packers and Stockyards Act, developing grain and other commodity standards that are used to support fee-based grading programs and for other purposes, providing Federal oversight of marketing agreements and orders, and inspecting entities regulated under the Animal Welfare Act. I will use the remainder of my time to highlight the major activities and our budget requests for the Marketing and Regulatory Programs.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

The fundamental mission of APHIS is to anticipate and respond to issues involving animal and plant health, conflicts with wildlife, environmental stewardship, and animal well-being. Together with their customers and stakeholders, APHIS promotes the health of animal and plant resources to enhance market access in the global marketplace and to ensure abundant agricultural products and services for U.S. customers. I would like to highlight some key aspects of the APHIS programs:

Improve Plant and Animal Health.—While APHIS continues to work closely with the Department of Homeland Security (DHS) to exclude agricultural health threats, it retains responsibility for promulgating regulations related to entry of passengers and commodities into the United States. APHIS' efforts have helped keep agricultural health threats away from U.S. borders through increased offshore threat-assessment and risk-reduction activities. APHIS has also increased an already vigilant

animal and plant health monitoring and surveillance system to promptly detect outbreaks of foreign and endemic plant and animal pests and diseases.

Since June, 2004, when we launched the one-time, significantly enhanced surveillance program for BSE, we have tested about 660,000 high-risk animals as of March 20, 2006, and an additional 21,000 clinically-normal animals. Only two samples have tested positive. APHIS is in the process of evaluating the enhanced program, though it certainly would not be premature to say that by any measure the incidence of BSE in the United States is extremely low.

In addition, we are moving ahead with the National Animal Identification System (NAIS). All 50 States, five Tribes, and two U.S. Territories are registering premises with an estimated total of about 213,000 premises registered as of March 7, 2006. APHIS and its State and Tribal cooperators are registering hundreds of premises each week, and we are also in the preparation stage to begin allocation of individual animal identification numbers.

We have been closely monitoring the very alarming spread of highly pathogenic avian influenza overseas. USDA is a full partner in the government-wide effort to prepare the country for a potential pandemic and the worldwide effort to stop the spread of H5N1 virus at its source overseas. We appreciate funding provided through the December, 2005, pandemic influenza emergency supplemental. We are using those funds for international efforts, domestic surveillance of poultry and migratory birds, diagnostics, and emergency preparedness and response.

Because efforts to exclude foreign pests and diseases are not 100 percent successful, APHIS also assists stakeholders in managing new and existing agricultural health threats, ranging from threats to aquaculture, crops, tree resources, livestock and poultry. In addition, APHIS assists stakeholders on issues related to conflicts with wildlife and animal welfare.

Enhance Market Access.—The Trade Issues Resolution and Management efforts are key to ensuring fair trade of all agricultural products. APHIS' staff negotiates SPS standards, resolves issues, and provides clarity on regulating imports and certifying exports which improves the infrastructure for a smoothly functioning market in international trade. Ensuring that the rules of trade are based on science helps open markets that have been closed by unsubstantiated SPS concerns.

In fiscal year 2005, reopening markets for United States products posed one of the greatest challenges. In regard to beef markets that were closed to U.S. exports because of BSE, APHIS has contributed to regaining at least partial access to 26 markets. Altogether, APHIS resolved 79 SPS issues in fiscal year 2005, allowing approximately \$1.4 billion worth of trade to occur.

Recent developments in biotechnology underscore the need for effective regulation to ensure protection of the environment and food supply, reduce market uncertainties, and encourage development of a technology that holds great promise. APHIS' Biotechnology Regulatory Services unit coordinates our services and activities in this area and focuses on both plant-based biotechnology and transgenic arthropods. We also are examining issues related to transgenic animals.

APHIS' 2007 BUDGET REQUEST

In a year of many pressing high-priority items for taxpayer dollars, the budget request proposes about \$953 million for salaries and expenses. There are substantial increases to support the Administration's Food and Agriculture Defense Initiative, enhance avian influenza efforts, address SPS trade barriers, and deal with specific threats to the agriculture sector. In addition, existing user fees of about \$139 million will support Agricultural Quarantine Inspection and related activities. A brief description of key efforts supported by the 2007 budget request follows.

A Total of About \$182 Million for Foreign Pest and Disease Exclusion.—Efforts will focus on enhancing our ability to exclude Mediterranean fruit fly, foreign animal diseases, and screwworm. In addition, we also request funds to open offices in Thailand, India, Italy, and West Africa to facilitate U.S. exports.

A Total of About \$304 Million for Plant and Animal Health Monitoring and Surveillance.—Due to the critical role of APHIS in protecting the Nation from both deliberate and unintentional introductions of an agricultural health threat, the budget requests an increase of about \$62 million as part of the Food and Agriculture Defense Initiative. This request would provide: enhanced international information gathering about potential threats abroad; greater plant pest detection and safeguarding; increased national wildlife and animal health surveillance; improved ability to respond to plant or animal disease outbreaks; and vaccines and supplies for the National Veterinary Stockpile. We will also continue efforts to build the National Animal Identification System to limit the spread of a potential animal disease outbreak.

A new request is intended to stop, slow, or otherwise limit the spread of highly pathogenic avian influenza to the United States and to limit the domestic spread of a pandemic. The budget includes an additional \$57 million for international capacity building (e.g., providing in-country veterinary expertise overseas); domestic surveillance and diagnostics (including wildlife surveillance); and emergency preparedness and response. This would continue efforts that were started with funds from the December, 2005, pandemic influenza emergency supplemental.

A Total of \$344 Million for Pest and Disease Management Programs.—Once a pest or disease is detected, prompt eradication will reduce long-term damages. In cases where eradication is not feasible (e.g., European gypsy moth), attempts are made to slow the advance, and damages, of the pest or disease. APHIS provides technical and financial support to help control or eradicate a variety of agricultural threats. The budget proposes a number of increases, including those for citrus canker, emerald ash borer, and sudden oak death. Other programs are reduced. For example, successes in boll weevil eradication efforts allow a reduction in that program. Included is an increase of \$10 million for competitive grants to fund the application of innovative private-sector solutions to real-world pest and disease problems.

A Total of \$20 Million for the Animal Care Programs.—Additional funding will help APHIS maintain its animal welfare and horse protection programs despite the rapid growth in the number of new licensees and registrants. The budget includes a proposal to collect \$8 million in fees from regulated entities to help cover costs associated with inspections under the Animal Welfare Act.

A Total of \$94 Million for Scientific and Technical Services.—Within USDA, APHIS has chief regulatory oversight of genetically modified organisms. To help meet the needs of this rapidly evolving sector, the budget includes a request to, in part, enhance our regulatory role towards transgenic animals and disease agents. Also, APHIS develops methods and provides diagnostic support to prevent, detect, control, and eradicate agricultural health threats, and to reduce wildlife damages (e.g., coyote predation). It also works to prevent ineffective or harmful animal biologics from being marketed.

A Total of \$10 Million for Improving Security and IT Operations.—A portion of the increase would be used to upgrade key computer resources for eGov requirements and other efforts. It also includes providing the State Department funds to help cover higher security costs for APHIS personnel abroad.

AGRICULTURAL MARKETING SERVICE

The mission of the AMS is focused on facilitating the marketing of agricultural products in the domestic and international marketplace, ensuring fair trading practices, and promoting a competitive and efficient marketplace to the benefit of producers, traders, and consumers of U.S. food and fiber products. The Agency accomplishes this mission through a wide variety of publicly and user funded activities that help its customers improve the marketing of their food and fiber products and ensure such products remain available and affordable to consumers. Consequently, most AMS programs enhance access to current trading information, including availabilities of supply, location and size of demand, underutilized market facilities, and availability of means of transportation. In addition, the Standardization program contributes to the harmonization of international quality standards.

Market News.—Market news reports improve market efficiency for all parties by offering equal and ready access to current, unbiased market information so that agricultural producers and traders can determine the best place, price, and time to buy or sell. AMS Market News provides this information by reporting current prices, volume, quality, condition, and other market data on farm products in more than 1,300 production areas and specific domestic and international markets. In October 2005, AMS launched a new Market News Web Portal, making Fruit and Vegetable and Livestock and Grain reports immediately available for users, with other AMS commodities to be added in coming months.

The Livestock Mandatory Price Reporting Program continues to provide more than 100 daily, weekly, or monthly reports on fed cattle, swine, lamb, beef, and lamb meat market transactions. However, since legislative authority for the Program lapsed on September 30, 2005, the program operates on a voluntary basis. The Government Accountability Office recently reviewed the program and we are making improvements in response to their recommendations.

Commodity Standards.—AMS works with the agricultural industry to establish and improve commonly recognized quality descriptions for agricultural commodities that support access to domestic and international markets. The Standardization program supports exports of U.S. agricultural products by helping to represent the interests of U.S. producers in a variety of international standards development meet-

ings. AMS experts continue to participate in developing international dairy, meat, poultry, fruit, and vegetable standards.

Country of Origin Labeling.—AMS is implementing a Country of Origin Labeling surveillance and enforcement program for fish and shellfish. Labeling requirements for these products became mandatory on April 4, 2005, and AMS has educated the industry on the documentation and records required to substantiate country of origin and method of production claims.

National Organic Program.—The National Organic Standards program supports market access for organic producers by setting national standards for organic products sold in the United States, which provides assurance for consumers that the organic products labeled “organic” uniformly meet those requirements. The U.S. organic food industry has increased to an \$18 billion annual sales level and is still growing.

Pesticide Data and Microbiological Data Programs.—AMS also provides consumer assurance by collecting pesticide residue data and microbiological baseline data. In 2005, the Pesticide Data program performed over 120,000 analyses on more than 13,000 samples. The data gathered and reported by AMS on pesticide residues supports science-based risk assessments performed by a number of entities, including regulatory agencies.

Transportation Services.—The Transportation Services program supports market access by facilitating the movement of U.S. agriculture products from farm to market. This program helps maintain farm income, expand exports, and sustain the flow of food to consumers by providing “how to” technical expertise, research, and data on domestic and international transportation to growers, producers, and others in the marketing chain, and for government policy decisions. The Transportation Services program also produces periodic publications that improve market access by providing information for agricultural producers and shippers on trends, availability, and rates for various modes of transportation, including grain and refrigerated transport, agricultural containers, and ocean shipping. In fiscal year 2005, the program greatly expanded its reporting to keep the Secretary and Administration officials well-apprised on the impacts of Hurricanes Katrina and Rita on agricultural transportation.

Wholesale, Farmers, and Alternative Markets.—AMS program experts, in cooperation with local and city agencies, improve market access to market facilities by assisting local efforts to develop or improve wholesale and farmers markets, and to discover other direct marketing opportunities. This program also supports research projects to help agricultural producers discover new or alternative marketing channels and new technology. For 2006, AMS was appropriated funds to implement the Farmers Market Promotion program. The program will make grants of up to \$75,000 to eligible entities, such as agricultural cooperatives, local governments, and others, to establish, expand, and promote farmers’ markets and other direct-to-consumer marketing channels.

Federal/State Marketing Improvement Program (FSMIP).—AMS helps to resolve local and regional agricultural market access problems by awarding Federal matching grants for projects proposed by State agencies. In 2005, the FSMIP program allocated grant funds to 21 States and Puerto Rico for 27 projects such as studies on linking producers with new buyer groups and innovative uses for locally important agricultural products.

Commodity Purchases.—USDA nutrition programs provide growers and producers with access to an alternative outlet for their commodities. AMS food purchases stabilize markets and support nutrition programs, such as the National School Lunch Program, the Emergency Food Assistance Program, the Commodity Supplemental Food Program, and the Food Distribution Program on Indian Reservations. AMS works in close cooperation with both the Food and Nutrition Service (FNS) and the Farm Services Agency (FSA) to administer USDA commodity purchases and to maximize the efficiency of food purchase and distribution operations. In fiscal year 2006, we will begin the development of a Web-based Supply Chain Management System, which will enhance our ability to track bids, orders, purchases, payments, inventories, and deliveries of approximately \$2.5 billion of commodities used in all food assistance programs every year in addition to those price-support commodity products maintained in inventory.

AMS’ 2007 BUDGET REQUEST

For 2007, the AMS budget proposes a program level of \$730 million, of which \$195 million (nearly 27 percent) will be funded by existing user fees, \$450 million (approximately 62 percent) by Section 32 funds and \$85 million (about 12 percent)

by appropriations, which includes \$14.5 million to be derived from proposed new user fees. More specifically, the budget includes the following:

An Increase of About \$1 Million for the National Organic Program.—This request is to ensure that the National Organic Program can meet the needs of the rapidly growing organic industry. The increase will support: rulemaking needed to address a court order that found three elements of the national organic standards regulations inconsistent with statutory authority; renewal of substances on the National List of Approved and Prohibited Substances that are set to expire on October 21, 2007; and increased compliance actions, including training sessions for certifying agents.

An Increase of About \$400,000 for the Federal Seed Act Program.—AMS would assume seed testing in those States that have withdrawn from the program and work with seed producers and States to improve the accuracy of seed sampling and testing programs.

An Increase of About \$2.8 Million for a Food Protection Program.—AMS would promote the protection of commodities provided to the National School Lunch Program (NSLP) and other Federal nutrition assistance programs by incorporating food security attributes into purchase specifications, conducting vulnerability assessments needed to develop industry guidance on how to protect products purchased for distribution through NSLP, and development of model food security plans for products of importance to NSLP.

Funding of More than \$1 Million for Payments to States.—Under the Federal-State Marketing Improvement Program, AMS awards Federal matching grant funds to State agencies to address local and regional agricultural marketing problems.

Funding of Nearly \$10 Million Within Marketing Services for the Web-based Supply Chain Management System.—As mentioned earlier, this system, the successor to the Processed Commodities Inventory Management System, will improve information technology systems used to manage and control commodity orders, purchases, and delivery. Discretionary appropriated funding is requested in fiscal year 2007 to continue developing the system.

As Secretary Johanns testified before this committee last month, the 2007 budget funds our most important priorities while exercising fiscal discipline that is necessary to reduce the Federal deficit. The AMS budget has proposals that moves us in the right direction while continuing to meet key priorities.

A Decrease of About \$6.3 Million for the Termination of the Microbiological Data Program (MDP).—The fiscal year 2007 budget does not request funding to continue the MDP because it is difficult to determine to what extent the data is used to support risk assessments. Sample origin data is not collected which limits the use of the data in epidemiological investigations aimed at determining the source of outbreaks of foodborne illness. In response to these findings and the need to limit Federal spending, the program is proposed for termination in 2007.

User Fees.—The budget proposes to collect about \$2 million through user fees for the development of domestic commodity grade standards that are associated with a grading program. Users of grading services are direct beneficiaries of commodity standards and, therefore, should be charged for the development of commodity grades associated with the grading and inspection program. In order to implement this proposal, legislation will be submitted to Congress to authorize these fees. Likewise, approximately \$12 million in user fees would be collected for Federal administration of marketing agreements and orders, which is currently funded through Section 32. The local market administrator or committee will be billed for their portion of Federal administrative costs.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

GIPSA's mission is to enhance market access for livestock, meat, poultry, cereals, oilseeds, and related agricultural products and to promote fair and competitive trade for the benefit of consumers and American agriculture. GIPSA fulfills this through both service and regulatory functions in two programs: the Packers and Stockyards Programs (P&SP) and the Federal Grain Inspection Service (FGIS).

Before proceeding, I want to note that we are taking very seriously the recent audit by the Office of Inspector General (OIG) of the P&SP and we have established an aggressive schedule to improve enforcement of the Packers and Stockyards Act. The audit identified areas where program management was not up to the high standard that this Administration expects and our stakeholders deserve. The OIG provided ten recommendations for strengthening the P&SP. GIPSA concurs with all recommendations and is taking aggressive action to implement them.

Packers and Stockyards Programs.—Recognizing what needs to be improved, the strategic goal for P&SP is to promote a fair, open and competitive marketing envi-

ronment for the livestock, meat, and poultry industries. Currently, with 152 employees, P&SP monitors the livestock, meatpacking, and poultry industries, estimated by the Department of Commerce to have an annual wholesale value of about \$120 billion. Legal specialists and economic, financial, marketing, and weighing experts work together to monitor emerging technology, evolving industry and market structural changes, and other issues affecting the livestock, meatpacking, and poultry industries that the Agency regulates.

The Swine Contract Library began operation on December 3, 2003, and continues, though since October, 2005, it has been on a voluntary basis since the legislative authority in the Livestock Mandatory Price Reporting Act lapsed. Producers can see contract terms, including, but not limited to, the base price determination formula and the schedules of premiums or discounts, and packers' expected annual contract purchases by region.

Progress continues to be made on the Livestock and Meat Marketing Study, which examines broad issues surrounding packer ownership of livestock. The contractor for the study, the Research Triangle Institute (RTI), released an interim report in August, 2005. The final report is scheduled for release in early 2007. We recognize that this is later than expected, but given the complexity of issues, more time is needed to adequately analyze them.

Federal Grain Inspection Service.—FGIS facilitates the marketing of U.S. grain and related commodities under the authority of the U.S. Grain Standards Act and the Agricultural Marketing Act of 1946. As an impartial, third-party in the market, we advance the orderly and efficient marketing and effective distribution of U.S. grain and other assigned commodities from the Nation's farms to domestic and international buyers. We are part of the infrastructure that undergirds the agricultural sector.

GIPSA works with government and scientific organizations to establish internationally recognized methods and performance criteria and standards to reduce the uncertainty associated with testing for the presence of biotechnology traits in grains and oil seeds. It also provides technical assistance to exporters, importers and end users of U.S. grains and oilseeds, as well as other USDA agencies, industry organizations, and other governments. These efforts help facilitate the sale of U.S. products in international markets.

Our efforts to improve and streamline our programs and services are paying off for our customers, both in terms of their bottom lines and in greater customer satisfaction. In fiscal year 2005, GIPSA employees issued nearly 3 million certificates representing approximately 245 million tons of grain. One indicator of the success of our outreach and educational initiatives is the number of foreign complaints lodged with FGIS regarding the quality or quantity of U.S. grain exports. In fiscal year 2005, FGIS received only ten complaints regarding poor quality and one complaint regarding inadequate weights from importers on grains inspected under the U.S. Grain Standards Act. These involved 456,069 metric tons, or about 0.4 percent by weight, of the total amount of grain exported during the year.

I would like to acknowledge the efforts of GIPSA employees in the aftermath of Hurricanes Katrina and Rita. We are proud to report that no service requests were denied as a result of the hurricanes. GIPSA personnel were on duty and ready to provide service as soon as the industry resumed operations. Our local personnel showed fortitude and determination in addressing both the personal and work-related challenges created by the storms.

GIPSA'S 2007 BUDGET REQUEST

For 2007, the budget proposes a program level for salaries and expenses of about \$84 million, of which more than \$42 million is from existing inspection and weighing user fees. Of the appropriations request of almost \$42 million, approximately \$20 million is devoted to the grain inspection activities including standardization, compliance, and methods development activities and about \$21 million to the P&SP. The 2007 budget includes the following program increases:

About \$2.9 Million for IT Initiatives.—This would continue the agency's multi-year IT modernization efforts, of which \$1.4 million is one-time funding. The agency's eGov initiatives would facilitate the electronic transfer of information to and from stakeholders, and allow more efficient utilization by GIPSA of information such as program reviews and evaluations, agricultural product standards, inspection data, field test equipment reporting.

About \$400,000 to facilitate U.S. grain exports to Asia. GIPSA would establish an ongoing presence in Asia to expand upon our successful international services and trade activities currently provided on a temporary basis.

User fees. Two user fees are included in the budget. One would be charged to recover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain industry. This fee proposal would enable GIPSA to recover almost \$4 million in fiscal year 2007. Also, a further \$16 million in license fees would be collected for the Packers and Stockyards program.

CONCLUSION

This concludes my statement. I am looking forward to working with the Committee on the 2007 budget for the Marketing and Regulatory Programs. We believe the proposed funding amounts and sources of funding are vital to improving plant and animal health and ensuring quality, enhancing market access, and achieving harmonization of international standards. It also reduces the deficit and protects American agriculture from terrorists. We are happy to answer any questions.

PREPARED STATEMENT OF LLOYD C. DAY, ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE

Mr. Chairman and Members of the Committee, I am pleased to have this opportunity to represent the Agricultural Marketing Service (AMS) in presenting our fiscal year 2007 budget proposal. Although I have worked with AMS only since early August, I understand the importance of efficient and effective marketing systems for U.S. agricultural producers and consumers. My previous Government experience was focused on international trade issues at the Foreign Agricultural Service and the California Trade and Commerce Agency; in private industry, I have managed business development and marketing activities.

To provide a starting point for discussion of our budget proposals, I would like to begin by reviewing our agency's mission in the context of USDA's strategic objectives. I will also discuss a few of the programs through which we carry out that mission, and mention a few recent accomplishments and issues of interest to AMS clientele.

MISSION

AMS is a key component in USDA's strategic objective to increase the efficiency of domestic agricultural production and marketing systems. This objective recognizes that the long-term viability of agricultural producers depends on their ability to manage an efficient and profitable operation. Once produced, agricultural goods need efficient and equitable market outlets. AMS plays an integral role in the U.S. marketing system by ensuring that buyers and sellers in the food production and distribution chain have equal access to market information and technical services. Although our focus is generally on domestic marketing, some of our programs also support USDA's efforts to assist U.S. agricultural producers in international marketing.

The mission of AMS is to facilitate the marketing of agricultural products in the domestic and international marketplace, ensure fair trading practices, and promote a competitive and efficient marketplace to the benefit of producers, traders, and consumers of U.S. food and fiber products. We accomplish our mission through a wide variety of appropriated activities and through our user-funded grading, certification, and Perishable Agricultural Commodities Act programs. Although our user-funded and reimbursed programs are important to agricultural marketing, most of my discussion today will focus on our appropriated programs.

AMS PROGRAMS

AMS programs work together, in cooperation and coordination with other Federal agencies within USDA and outside the Department, and with State partners to provide services that support our mission. Our "clients" span the marketing chain from the producer to the consumer. For example, we collect and disseminate current market information on agricultural prices, quality, supply, demand, and other data useful for production, sales, and purchase decisions. We also publish current rates and availability information on agricultural product transportation modes. We provide technical advice and support on market facilities, methods, and technology, plus matching grants for regional projects that support agricultural marketing. We offer independent, official verification services to provide assurance for sellers and buyers that commodities meet contract specifications, quality and marketing claims, labeling, and Federal requirements, and to ensure fair trading of agricultural production in the United States. Consumers benefit directly from organic labeling, graded foods, farmers markets, and pesticide residue information. Our programs assist com-

modity producer groups by providing technical and regulatory support for federally-authorized self-help programs, and we purchase food commodities that are in short-term oversupply for use in USDA nutrition assistance programs.

MARKETING SERVICES

Our Marketing Services programs provide services that benefit all agricultural producers, traders, and consumers of dairy products, fruits, vegetables, specialty crops, livestock and meat, poultry, cotton, and tobacco. These programs facilitate marketing by providing information, technical expertise, and buyer assurance. They are funded through annual appropriations and include our Market News, Standardization, Shell Egg Surveillance, Federal Seed, National Organic, Pesticide Record-keeping, Country of Origin Labeling, Pesticide Data, Transportation Services, and Wholesale, Farmers, and Alternative Market Development programs.

MARKET NEWS

AMS' Market News service reports market data on farm products in more than 1,300 production areas and many domestic and international markets. Market News reports for over 700 commodities are disseminated within hours of collection via the Internet and other electronic means and through the news media. In October 2005, we made available a new Market News Web Portal to the public, making Fruit and Vegetable and Livestock and Grain reports immediately available for users, with other AMS commodities to be added in coming months. The portal allows the agricultural industry and other interested users to customize the data they receive, build their own reports, and query the database back to 1998. We have already received an enthusiastic response to the expanded availability of data through the portal.

Market news data is provided by buyers and sellers for most commodities on a voluntary basis. However, Congress established Livestock Mandatory Price Reporting (LMPR) in 2000 to ensure that information on meat and livestock trades would continue to be available for producers in a consolidating industry, including formula and contract market information. LMPR generates more than 100 daily, weekly, or monthly reports on fed cattle, swine, lamb, beef, and lamb meat market transactions. Legislative authority for LMPR lapsed on September 30, 2005, following a 1-year extension. As both Houses of Congress were considering bills to continue the program, AMS sent letters to all packers previously required to report, requesting voluntary cooperation in continuing to submit information required under the mandatory program. Consequently, most of the reports continue to be published—only the imported boxed lamb cuts and slaughter cow reports have been discontinued.

The Government Accountability Office recently reviewed the program and recommended some improvements. To improve reporting transparency, AMS will inform Market News readers about the general guidelines followed by AMS reporters in making reporting decisions through periodic public reports on the volume of submitted transactions that are excluded by reporters and the effect that such exclusions had on net price distributions on all reported commodities. We also have established a toll-free telephone information line for questions about reporting which gives producers an opportunity to obtain information on how the data for the livestock they sold is used in reporting.

To help verify the overall accuracy of the transaction data supplied by packers and to identify recurring significant problems, AMS will implement additional or modified auditing methods to increase the overall effectiveness of compliance activities. The program is reviewing sample selection, the need for more audits at plants that demonstrate a higher frequency of non-compliances, and additional analyses to identify any widespread reporting problems. To ensure timely and consistent follow-up to audit findings, AMS has developed new procedures that greatly improve the audit process, including timeframes for corrective action and a hierarchy for categorizing the severity of non-compliances. AMS also has modified its audit process to more closely review transactions reported at the low-price end of the market. All of these improvements will be completed by the end of this fiscal year.

Livestock and meat information is used as a basis for developing contracts between producers and packers, as well as packers and retailers. We believe that the program has resulted in the availability of comprehensive information that has improved the transparency of the marketplace. Therefore, we request continued funding and support reauthorization of Livestock Mandatory Price Reporting.

COUNTRY OF ORIGIN LABELING

This year, we are implementing a Country of Origin Labeling (COOL) surveillance and enforcement program for fish and shellfish. Labeling requirements for these

products became mandatory on April 4, 2005, and we have used the intervening months to educate the industry—suppliers and retailers—on the documentation and records required to substantiate country of origin and method of production claims. Mandatory labeling requirements for all other covered commodities were delayed until September 30, 2008. The delay will allow us to develop an operational infrastructure before mandatory labeling for all other commodities covered by the Act—beef, lamb, pork, perishable agricultural products, and peanuts—becomes effective.

TRANSPORTATION

Our Transportation Services program facilitates the movement of U.S. agricultural products to market. As part of that effort, the program produces periodic publications that provide information for agricultural producers and shippers on various modes of transportation, including grain transportation, refrigerated transport, ocean rates and transportation trends, and agricultural containers. In 2005, the program greatly expanded its reporting to keep the Secretary and Administration officials well-apprised of the impacts of Hurricanes Katrina and Rita on agricultural transportation; issuing 22 daily and 5 weekly briefing reports from August 29, 2005 to October 26, 2005. In early November, the program switched to issuing a Weekly Transportation Update, which continued to provide information on the recovery status of the transportation systems. During the aftermath of the hurricanes AMS participated with the Army Corps of Engineers in briefing staff from both houses of Congress and supported Departmental testimony on the recovery.

MARKET DEVELOPMENT

Our Wholesale, Farmers, and Alternative Market Development program experts, in cooperation with local and city agencies, assist local efforts to develop or improve wholesale and farmers market facilities, and to discover other direct marketing opportunities. This program also supports research projects on marketing channels and market technology improvements, as well as numerous marketing conferences and workshops across the country. For 2006, AMS was appropriated funding to implement the Farmers Market Promotion program. The program will make grants of up to \$75,000 to eligible entities to establish, expand, and promote farmers' markets and other direct-to-consumer marketing channels. These eligible entities include agricultural cooperatives, local governments, regional farmers' market authorities, and nonprofit, public benefit, and economic development corporations.

SECTION 32

AMS also receives appropriated funding for activities authorized under Section 32 of the Act of August 24, 1935. AMS' Commodity Purchase program buys perishable non-price supported agricultural commodities—meat, poultry, fruits, vegetables, and fish to encourage domestic consumption. Commodity purchases support the market for these agricultural commodities by reducing supplies in temporary surplus, by providing foods used by domestic nutrition assistance programs, and by purchasing commodities for use in disaster relief efforts. The purchased foods are donated to the National School Lunch Program and other domestic nutrition programs. In fiscal year 2005, AMS purchased 1.46 billion pounds of commodities that were distributed by the Food and Nutrition Service through its nutrition assistance programs. As directed by the Secretary, this program may also make emergency diversion and relief payments to producers in temporary distress. In addition to commodity purchasing activities, Section 32 funds the Federal administration of Marketing Agreements and Orders, which help producers in the marketing of their milk, fruit, vegetables, and specialty crops.

PARTNERSHIPS

Discussion of AMS' programs is not complete without a brief mention of the extensive partnerships with other Federal agencies, State agencies, and industry that characterize our program delivery.

The Agricultural Marketing Act of 1946, the authority on which we rely for a great number of our programs, encourages Federal-State cooperation in carrying out market facilitating activities. AMS depends on strong partnerships with cooperating State and Federal agencies to operate many of our programs. AMS provides guidance and coordination to State agency partners who collect data, provide inspection, monitoring, and laboratory services, and otherwise maximize the value of both State and Federal resources through sharing and coordination. For instance, AMS' Market News program maintains cooperative agreements with 38 States to coordinate their local market coverage with the regional and national coverage needed for AMS' mar-

ket reporting. State employees, who inspect shipments of seed within a State, provide information to AMS' Federal Seed program on potential violations in interstate shipments. Our transportation and direct marketing programs work with Federal, State, city and local policy makers to maintain an efficient national transportation system and expand and improve market outlets for U.S. agricultural products. Under Section 32, USDA's food purchase programs have developed partnerships that maximize the unique expertise that each agency brings to the process. AMS works in close cooperation with the Food and Nutrition Service (FNS) and the Farm Service Agency (FSA) to support USDA's nutrition assistance and administer surplus commodity programs.

FISCAL YEAR 2007 BUDGET REQUEST

This leads us into our budget requests for fiscal year 2007. In Marketing Services, we propose to strengthen the operations of the National Organic and Federal Seed Act programs, implement a new Food Protection program for purchased commodities, and continue work on the Web-based Commodity Supply Chain Management System. The budget also includes a proposal to terminate the Microbiological Data program and institute new user fees for the development of grade standards and the Federal administration of Marketing Agreements and Orders.

NATIONAL ORGANIC PROGRAM

The U.S. organic food industry has grown approximately 20 percent a year to an \$18 billion annual sales level and provides an important marketing opportunity for many producers. We are requesting additional funding of \$1.1 million for fiscal year 2007 so that we can more effectively manage the statutory and operational requirements of the National Organic Program (NOP) to ensure that it meets producers' needs and consumers' expectations.

The National Organic program (NOP) provides assurance for consumers that organic products uniformly meet established requirements nationwide. Program personnel work in partnership with the National Organic Standards Board, which is appointed by the Secretary to represent industry and consumer interests. In January, six new members were appointed to the Board. Based on earlier Board recommendations, AMS has hired an Executive Director and developed a plan to establish a peer review panel. The panel will assist in evaluating applications of certifying agents seeking accreditation and ensure that the accreditation process is consistent with the intent of the law.

The budget request will provide the funds needed for independent peer audits that evaluate all aspects of the NOP accreditation program and for program staffing to implement the results of those audits and otherwise assist in the delivery of this program. The audits, which will be conducted every 2 years, are necessary to maintain the program's credibility with the organic industry and for continuous improvement of the program's management systems.

The program also needs additional resources to avoid interruption of organic production. As provided in statute, the approvals for some 174 materials originally placed on the National List of approved and prohibited substances for organic production will sunset in October 2007. AMS program staff works with the National Organic Standards Board to update and maintain the National List and each of the expiring materials must be re-evaluated. To ensure that the Board and all interested parties have sufficient time to evaluate such a large number of materials, AMS published an Advance Notice of Proposed Rulemaking in June 2005 that began the public comment process on whether the specific exemptions or prohibitions should be continued. Due to heightened interest, technological obsolescence, or available alternatives, we expect that almost one-third of those materials will have to undergo independent scientific reviews before their use can be reauthorized. Our fiscal year 2007 budget request includes funding for the program to work with the Board to complete the re-evaluation of the National List.

The requested funding also will provide the resources needed to resolve other issues facing the program: (1) strengthening compliance and enforcement activities to maintain trade and consumer confidence; (2) developing organic standards for additional products, which will require extensive public input; and (3) dealing with current issues such as recent amendments to the Organic Foods Production Act and questions on access to pasture for organically produced ruminants. Although Congressional action amending the Organic Foods Production Act of 1990 (OFPA) restored the program to its status before the decision by the U.S. District Court for the District of Maine in the case of *Harvey v. Johanns*, certain procedural issues remain to be resolved. The court found, on June 9, 2005, that USDA had in two instances exceeded its statutory authority in developing program regulations. To re-

duce the impact of the court's ruling on the organic industry, Congress amended the OFPA on November 10, 2005, to permit the use of synthetic ingredients and the transitioning of dairy farms.

FEDERAL SEED ACT PROGRAM

Our fiscal year 2007 budget request includes an increase of \$432,000 for our Federal Seed Act program. The Federal Seed Act protects anyone who purchases seed by prohibiting false labeling and advertising on seed shipped interstate. The program prevents financial losses to farmers by detecting mislabeled, low quality seed before it is planted and creates a level playing field for seed companies that market truthfully labeled seed. In States where seed monitoring programs exist, AMS works with State partners who refer interstate violations to us. However, in States that do not have their own monitoring programs, we estimate that the percentage of mislabeled seed doubles. To better enforce the Act to protect growers, we propose to assume seed testing in 8 States—Maine, Vermont, New Hampshire, Connecticut, Rhode Island, New York, Michigan, and Wisconsin—that receive most of their seed from other States but do not have their own monitoring programs.

FOOD PROTECTION PROGRAM

For fiscal year 2007, we are requesting a \$2.75 million increase in Marketing Services to establish a new Food Protection program that will better protect the recipients of commodities that are purchased by USDA and distributed through the National School Lunch Program (NSLP) and other Federal nutrition assistance programs.

The Food Safety and Inspection Service (FSIS) and the Food and Drug Administration (FDA) are doing significant work with the food industry to promote food defense. AMS is pleased to be participating in several FSIS and FDA initiatives. Additional funding is necessary to ensure that all possible actions are taken in assessing and eliminating vulnerabilities in the production and distribution of foods for NSLP and other Federal nutrition assistance programs that serve vulnerable population segments. The resources we are requesting will enable us to work effectively with our vendors in their protection of their production facilities and with distributors in the transport of food products to State warehouses. AMS will ensure that our vendors are aware of FSIS' and FDA's food defense guidance and that they are early and effective adopters of that guidance.

In full partnership with FSIS and FDA, AMS will work with the vendor community to conduct vulnerability assessments, develop guidance on protecting products purchased for distribution through Federal programs, fund studies on improving security through safer packaging and transportation, and incorporate food protection attributes into our purchase specifications. AMS has begun developing specialized training materials to ensure that agency staff involved in contract acceptance are properly trained and supervised. With additional resources, we plan to offer food protection training for about 6,000 employees of State partner agencies, along with workshops and training sessions for vendor employees. With the funds being requested we can protect Federal commodity purchases and help advance the food defense efforts of FSIS and FDA by ensuring that AMS' vendors are implementing effective food defense plans in their facilities.

FEDERAL-STATE MARKETING IMPROVEMENT PROGRAM

The Federal-State Marketing Improvement Program (FSMIP) helps to resolve local and regional agricultural marketing problems by awarding Federal matching grant funds for projects proposed by State agencies. Our fiscal year 2007 budget request includes \$1.3 million for FSMIP. These matching grant funds are made available to State departments of agriculture and other State agencies for 25 to 35 projects each year, with the State agencies contributing at least half of the project cost. In 2005, the program allocated grant funds to 21 States and Puerto Rico for a total of 27 projects, including studies on linking producers with new buyer groups and innovative uses for locally important agricultural products. The program encourages projects that use a collaborative approach between the States, academia, and the farm sector, that have regional or national significance, and that address challenges or opportunities posed by the global economy, changing consumer preferences, agricultural diversity, technical innovation, transportation, and distribution.

WEB-BASED SUPPLY CHAIN MANAGEMENT SYSTEM (WBSCM)

For fiscal year 2007, we are proposing to continue development of the Web-based Supply Chain Management System at a reduced level of \$9.9 million, and we are requesting funding from Marketing Services so that this project is funded from discretionary resources. As \$20 million was provided from Section 32 in fiscal year 2006, our budget request for Commodity Purchases Administrative funds in fiscal year 2007 has been reduced by that amount.

The WBSCM system will support \$2.5 billion worth of USDA food purchases distributed through the National School Lunch Program and other domestic and international food assistance programs. WBSCM will replace USDA's existing Processed Commodity Inventory Management System (PCIMS) that links the procurement and distribution functions of AMS, FNS, and FSA. PCIMS is over 15 years old and is inflexible, resource intensive, and costly to maintain. AMS initiated and coordinated the budget request for this initiative on behalf of all three agencies.

The implementation of WBSCM will save USDA's nutrition programs several million dollars annually, in operational and maintenance costs, increased productivity, and reduced purchase and shipping costs. WBSCM will create a single point of access for customers, allowing the agencies to share information with customers more quickly and conveniently. The new system will improve efficiency by greatly reducing the time required for processing purchases; shortening delivery times; improving USDA's ability to collaborate with other Departments; improving reporting capabilities; reducing transportation, inventory, and warehousing costs; and enabling future systems updates as needed. Successful completion of this initiative will support clean financial audits for the Department, the agencies' ability to effectively and efficiently work with recipients and vendors, and USDA's ability to respond to natural disasters.

MICROBIOLOGICAL DATA PROGRAM TERMINATION

The fiscal year 2007 budget does not request funding to continue the Microbiological Data Program (MDP) which was established in 2001 to establish a national database on foodborne pathogens on domestic and imported produce. It is difficult to determine to what extent the data obtained through this program are used to support risk assessments by other Federal agencies such as the Food and Drug Administration. Furthermore, the use of these data by agencies, such as the Centers for Disease Control and Prevention, involved in epidemiological investigations aimed at determining the source of outbreaks of foodborne illness is limited because data on sample origin is not collected, as directed by Congress. In response to these concerns and the need to limit Federal spending, the program is proposed for termination in 2007.

NEW USER FEES

Our Marketing Services request for fiscal year 2007 includes \$2.2 million to be recovered through new user fees, based on a proposed legislative change that would convert most of our domestic standards activities to user-fee funding. USDA will submit legislation that will amend the Agricultural Marketing Act of 1946 and authorize the agency to implement, collect, and retain user fees for domestic standards that are associated with AMS' grading and certification services. Also, \$12.3 million is proposed to be recovered for the Federal administration of Marketing Agreements and Orders through increased assessments on program beneficiaries, which is currently funded through Section 32.

STANDARDS USER FEES

This budget again proposes to recover the costs for developing and updating domestic standards through user fees paid by those requesting AMS' grading and certification services. This proposal was recommended by the Program Assessment Rating Tool (PART) review conducted for the fiscal year 2006 budget. On average, we expect the cost for Standards development will be about 2 percent of the cost of grading services. The Department has proposed a legislative amendment authorizing standards user fees.

AMS' Standardization program works closely with interested parties in agriculture and the food marketing system to ensure that quality descriptions are aligned with current U.S. marketing practices because efficient markets need widely-recognized agricultural product descriptions in commercial sales and purchases. The agriculture industry uses these descriptions to convey commodity quality in purchase specifications and sales contracts. AMS currently maintains about 600 U.S. agricultural quality standards for domestic and international trading of cotton,

tobacco, dairy products, fruits and vegetables, livestock, meat, poultry, eggs, and rabbits.

The Standardization program also supports exports of U.S. agricultural products by representing the interests of U.S. producers in a variety of international standards development organizations. We are proposing to retain appropriations to fund these activities.

MARKETING AGREEMENTS AND ORDERS USER FEES

Marketing Agreements and Orders are requested by producers and handlers to help establish orderly marketing conditions for milk, fruits, vegetables, and tree nuts. AMS evaluates and conducts hearings on proposed Marketing Orders, which are subject to approval by producers of the regulated community. Section 32 funds have been appropriated for Federal costs in administering the order at the national level, including public hearings, referenda on new programs and proposed revisions, and enforcement. The Milk Marketing Order Administrators and Fruit and Vegetable Marketing Order Committees, who oversee local administration of Marketing Orders, operate on assessments paid by their industries. Our fiscal year 2007 budget proposes to charge user fees to recover the cost of Federal oversight. The assessments already charged to beneficiaries for local program administration would be increased to cover Federal costs. USDA is preparing a legislative amendment to authorize recovery of these costs.

BUDGET REQUEST SUMMARY

Our budget request includes \$81.5 million in appropriated funds and \$2.2 million in new user fees for a total budget of \$83.7 million in Marketing Services; we also request \$1.3 million for FSMIP grants funding. For administration of Section 32 activities, we request \$11.6 million to support commodity purchasing and a total of \$16.4 million for the Marketing Agreements and Orders program—\$4.1 million in appropriations and \$12.3 million from user fees. Our Marketing Services and Section 32 administrative funding requests include an increase for pay costs.

Thank you for this opportunity to present our budget proposal.

PREPARED STATEMENT OF DR. W. RON DEHAVEN, ADMINISTRATOR, ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Mr. Chairman and members of the Subcommittee, it is a pleasure for me to represent the Animal and Plant Health Inspection Service (APHIS) before you today. APHIS is an action-oriented agency that works with other Federal agencies, Congress, States, agricultural interests, and the general public to carry out its mission to protect the health and value of American agriculture and natural resources. This mission is vital not only to protect the livelihoods of agricultural producers and the industries related to them, but also to United States homeland security and food and agriculture defense. The past year has brought many challenging agricultural issues our way, such as the threat of a pandemic Highly Pathogenic Avian Influenza (HPAI) outbreak and Bovine Spongiform Encephalopathy (BSE); outbreaks of Medfly, Sudden Oak Death, and Emerald Ash Borer; as well as the spread of citrus canker in Florida due to the heavy hurricane season last year. APHIS remains committed to preventing the spread of animal and plant pests and diseases in the United States and our Agency has continued its vigilant effort to prevent foreign agricultural pests and diseases from entering the country. We also remain committed to keeping American agricultural products moving overseas. APHIS' mission of protecting the health and value of United States agricultural and natural resources encompasses a wide variety of activities. I would like to report on our fiscal year 2005 highlights, and our fiscal year 2007 budget request.

FISCAL YEAR 2005 HIGHLIGHTS

Pest and Disease Exclusion Activities

APHIS' efforts begin with offshore threat assessment and risk reduction activities at the sources of exotic agricultural pests and diseases. Through our pest and disease exclusion programs, we follow animal and plant health throughout the world and use this information to set effective agricultural import policy, and facilitate international trade by clarifying and amending import requirements, as necessary. Our off-shore risk reduction activities also include conducting pest and disease eradication programs in foreign countries and pre-clearance inspection of certain commodities in off-shore locations; performing intense monitoring and surveillance for exotic fruit flies and cattle fever ticks in high-risk, border areas of the United

States; and cooperating with the Department of Homeland Security's Bureau of Customs and Border Protection (CBP) to inspect arriving international passengers, cargo, baggage, mail, and other means of conveyance.

Officials with our Agricultural Quarantine Inspection, Trade Issues Resolution Management, Foreign Animal Disease/Foot and Mouth Disease (FAD/FMD), and Import/Export programs track plant and animal health issues around the world and use the information to set import policies to ensure that agricultural diseases are not introduced through imports. This information also helps determine what pests and diseases might have pathways into the United States and informs our monitoring and surveillance efforts here at home. APHIS is establishing a formal international information gathering program under the FAD/FMD and Pest Detection line items to build on these efforts. Through its off-shore pest information system, APHIS has identified more than 600 plant pests that pose risks to U.S. agriculture. APHIS uses this information to provide guidance to CBP on inspection protocols and to target cargo from certain areas for increased inspection.

To ensure our import regulations are enforced and adequately protect United States agricultural and natural resources, we work closely with CBP to monitor and intercept prohibited items that arrive at United States ports of entry. In fiscal year 2005, agricultural inspectors checked the baggage of nearly 66 million arriving passengers and cleared 49,394 ships and 2,239,813 cargo shipments. In total, agricultural inspectors intercepted 49,665 reportable pests at land borders, maritime ports, airports, and post offices. These include exotic fruit flies, various moth species, scale insects, and rust diseases.

In fiscal year 2005, APHIS and CBP also began enforcing new entry requirements for solid wood packaging materials, which can harbor serious forest pests. The introduction of pests such as the Asian longhorned beetle and emerald ash borer has been linked to solid wood packaging materials used as crates and boxes for shipping all kinds of commodities. The new regulations are based on an international standard that will be used by more than 150 countries to address this world-wide problem.

APHIS continued to support the FMD barrier between Central America and Colombia and began plans to move it further away from the United States to reduce the risk of an FMD introduction. We reported 29 FMD-positive cases in countries bordering Columbia: 21 in Ecuador and eight in Venezuela. Agency officials in these two countries maintained relationships with local governments and strengthened cooperative agreements for FMD eradication. In particular, we supported 15 new cattle movement control posts along the Colombian-Ecuador border that will begin operating in November 2007 to establish a buffer zone to prevent the introduction of FMD in Columbia.

APHIS is actively engaged in ensuring that U.S. agricultural producers benefit from the global trade system established under the World Trade Organization (WTO), particularly the WTO Sanitary/Phytosanitary (SPS) Agreement. APHIS' scientific and technical expertise is key to enforcing our rights under the SPS Agreement involving animal and plant health measures. As a direct result of our efforts, 79 SPS trade issues were resolved in fiscal year 2005, allowing trade of U.S. agriculture exports worth close to \$1.4 billion to occur. These accomplishments involved retaining or expanding existing markets as well as opening new markets for U.S. products. The products involved range from poultry exports to China, apples to Japan, stonefruit to Mexico, almonds to India, and feeder cattle to Canada.

Our efforts to remove unjustified trade barriers related to BSE and AI are prime examples of APHIS work in this area. In fiscal year 2005, we successfully addressed barriers for U.S. poultry and poultry products in 25 export markets worth a combined \$254 million. We resolved BSE-related trade issues involving 19 foreign markets for U.S. bovine genetics, beef and beef products, allowing exports worth \$58 million in fiscal year 2005. Furthermore, APHIS leadership in international standard setting resulted in important science-based changes to the international standards for BSE and AI that we believe will encourage greater reliance on sound science in the trade of beef and poultry products.

Animal and Plant Monitoring and Surveillance

To minimize agricultural production losses and export market disruptions, APHIS quickly detects and responds to new invasive agricultural pests and diseases, or other emerging agricultural health threats, through our plant and animal health monitoring programs. The Agency creates and updates endemic pest and disease information systems, and monitors and conducts surveys in cooperation with States and industry. APHIS also conducts surveys for exotic plant pests and investigates reports of suspicious animal pests and diseases to reduce their spread, which elimi-

nates significant losses and helps maintain pest-free status for export certification of agricultural commodities.

The Animal Health Monitoring and Surveillance (AHMS) and Pest Detection programs coordinate national detection efforts for animal and plant pests and diseases. Both work closely with State and university cooperators to ensure that any introduction of exotic or foreign pests and diseases is quickly detected. These programs are also working closely with USDA's Cooperative State Research, Education, and Extension Service (CSREES) to coordinate the National Animal Health Laboratory Network and the National Plant Diagnostic Network to increase testing capacity in the United States for economically and environmentally significant animal and plant diseases.

To quickly detect and contain foreign animal disease incursions from spreading, APHIS thoroughly investigates all suspicious situations. In fiscal year 2005, the AHMS program conducted 1,027 foreign animal disease investigations, up from 870 in fiscal year 2004. The most common investigation was for vesicular conditions. Most suspected cases were investigated and subsequently diagnosed as not being an FAD. The program also continued to implement an enhanced surveillance program in response to the December 2003 detection of BSE in Washington State. With additional funding from the Commodity Credit Corporation, as of March 20, 2006, APHIS has sampled more than 660,000 animals for BSE since the inception of the enhanced surveillance program. To date, two samples have tested positive. Most samples were from high-risk categories (such as those animals exhibiting signs of central nervous system disorders); however, we also tested more than 21,000 samples from clinically normal adult animals. APHIS is in the process of analyzing data from the enhanced surveillance effort to determine what appropriate conclusions to draw about BSE prevalence, though it certainly would not be premature to say that the incidence of BSE in the United States is extremely low. At the conclusion of the enhanced BSE surveillance effort, we will continue our BSE monitoring program by conducting a minimum of 40,000 tests annually, which would still allow us to find BSE in one million cattle, with a confidence level of 95 percent.

To facilitate response efforts in the event of a future foreign animal disease outbreak, APHIS and its State and industry cooperators continue to implement the National Animal Identification System (NAIS) designed to identify, within 48 hours of discovery, any agricultural premise exposed to a disease so that potential outbreaks can be contained and eradicated as quickly as possible. The NAIS is a networked computerized system that will allow us to identify livestock and poultry and record their movements over their life-spans. All 50 States, five Tribes, and two U.S. Territories are currently registering premises with an estimated total of 213,000 premises registered. APHIS and its State and Tribal cooperators are registering hundreds of premises each week, and we are also in the preparation stage to begin allocation of individual animal identification numbers.

Through the Pest Detection program, APHIS targets pests based on their risk of entry and potential to cause significant economic or environmental damage. In fiscal year 2005, our national Cooperative Agricultural Pest Survey network resulted in the detection of several significant pests and diseases, including citrus greening in Florida and swede midge and siren beetle in New York. While the responses to these pests will differ based on many factors, the early detections made by the Pest Detection program are allowing APHIS or the affected State to take action to address the outbreaks and mitigate their effects.

In addition to conducting traditional surveys, the Pest Detection program and its cooperators are implementing ongoing monitoring activities at high-risk sites such as nurseries and warehouses that receive international cargo. In June 2005, California personnel detected an Asian longhorned beetle (ALB) introduction at a Sacramento warehouse as part of these efforts. ALB is present in urban locations in New York, New Jersey, and Chicago, Illinois. To control the beetle in these places, APHIS and cooperators have removed more than 10,000 trees at a significant cost to U.S. taxpayers. Because the Sacramento introduction was detected and addressed at its source, APHIS and State officials believe they have eliminated the threat of an ALB infestation in California by fumigating the warehouse and quickly tracking other products from the same shipment. Surveys will continue through 2008 to make certain that the beetle is not present.

In fiscal year 2004, Asian soybean rust (SBR) was detected for the first time in the United States. Because SBR cannot be eradicated, soybean producers must adjust to its presence and the costs associated with it, namely the application of fungicides to protect crops. Early detection of SBR in each new area is critical for effective disease management because the application of fungicides is most effective if applied as a preventive measure, before a field is infected. However, fungicide application is cost prohibitive (an average of \$25 per acre) if a particular area is not at

risk for infection. Accordingly, USDA (including APHIS and CSREES) implemented a short-term monitoring and surveillance network for the disease in fiscal year 2005. The survey data collected by the program in 36 States provided soybean producers with accurate information to use in determining whether or not to treat their fields and prevented the unnecessary application of fungicides.

Under the Animal and Plant Health Regulatory Enforcement program, our Investigative and Enforcement Services unit continues to provide support to all APHIS programs by conducting investigations of alleged violations of Federal laws and regulations under APHIS' jurisdiction and taking appropriate civil or criminal enforcement actions. Regulatory enforcement activities prevent the spread of animal and plant pests and diseases in interstate trade. In fiscal year 2005, APHIS conducted 842 investigations involving animal health programs, resulting in 440 warnings, 104 civil penalty stipulations, three Administrative Law Judge Decisions, and \$345,044 collected in fines. APHIS also conducted 1,773 investigations involving plant quarantine violations resulting in 456 warnings, 744 civil penalty stipulations, 157 Administrative Law Judge decisions, and approximately \$2 million collected in fines.

The Agency maintains a cadre of trained professionals prepared to respond immediately to potential animal and plant health emergencies. APHIS' Emergency Management System (EMS) is a joint Federal-State-industry effort to improve the ability of the United States to successfully manage animal health emergencies, ranging from natural disasters to introductions of foreign animal diseases. The EMS program identifies national infrastructure needs for anticipating, preventing, mitigating, responding to, and recovering from such emergencies. The Preparedness and Incident Command group of the EMS continued its ongoing efforts to complete, review, and update response plans for foreign animal diseases, such as BSE, Avian Influenza, and Classical Swine Fever.

Pest and Disease Management

APHIS also works closely with State, industry, and academic partners to maintain national detection networks and emergency response teams for plant and animal pest and disease outbreaks that may occur here in the United States. We work with these same partners to manage or eradicate economically significant endemic pests and diseases, and manage wildlife damage to agricultural and natural resources.

APHIS continues the cooperative effort with States and cotton producers to eradicate the Boll Weevil, and, by the end of fiscal year 2005, the program had eliminated the boll weevil from approximately 85 percent of the 15 million acres of cotton grown in the United States, up from 80 percent the previous year. We are on track to achieve full eradication by the end of fiscal year 2009.

At the end fiscal year 2005, 47 States were in full compliance with the Johnes' national program standards with the goal being 45 States enrolled. Only 3 States, Massachusetts, Montana, and Wyoming, have not adopted the Voluntary Bovine Johnes' Disease Control Program (VBjDCP). By the end of the year, 7,860 herds were enrolled in the VBjDCP. Since the initial goal was to enroll 4,000 herds, we exceeded the target by 96 percent.

APHIS continues to address the last stubborn pockets of endemic animal diseases such as pseudorabies, brucellosis, and bovine tuberculosis (TB). At the end of fiscal year 2005, all 50 States and 3 territories were in Stage V (free) status for pseudorabies. A full declaration of National Pseudorabies eradication will be possible after all 50 States and 3 territories have maintained free status for 2 consecutive years. Throughout fiscal year 2005, 48 States and three Territories remained classified at Brucellosis Class Free status, and two States, Texas and Wyoming, continued their Brucellosis Class A status classification for bovine brucellosis. In addition, at the end of fiscal year 2005, the TB program designated 49 States and Territories and portions of two others as accredited TB-free, thus exceeding the target of 47 States and territories considered class free.

Through our Wildlife Services Operations program, the Agency's cadre of wildlife disease biologists provided technical assistance, conducted surveillance, and maintained control of more than 18 wildlife diseases including Chronic Wasting Disease, West Nile Virus, bovine and swine brucellosis, pseudorabies, classical swine fever and plague. In addition, APHIS reinforced oral rabies vaccination zones along the Appalachian Ridge through the distribution of 5.52 million baits on 31,000 square miles from the Ohio-Pennsylvania border through northern Alabama.

APHIS wildlife biologists provided wildlife hazard management assistance to over 580 airports nationwide for the protection of human safety and property in fiscal year 2005, more than 12 times the amount in 1990 with only 42 airports. Wildlife strikes cost U.S. civil aviation nearly \$500 million in 2004.

APHIS has been challenged with numerous emergencies over the last several years. As such, we took quick and aggressive action to address plant and animal

health situations with BSE, Mediterranean fruit fly, citrus canker, sudden oak death, and emerald ash borer. The Secretary approved approximately \$177 million in Commodity Credit Corporation funding releases for APHIS programs in fiscal year 2005, of which \$8 million was funded through unused balances and \$169 million from new funds.

Animal Care

APHIS ensures the humane care and treatment of animals covered under the Animal Welfare Act (AWA) and the Horse Protection Act. Under this legislation, first enacted in 1966 and amended several times thereafter, APHIS carries out activities designed to ensure the humane care and handling of animals used in research, exhibition, the wholesale pet trade, or transported in commerce. APHIS places primary emphasis on inspection of facilities, records, investigation of complaints, inspection of problem facilities, and training of inspectors. Regulations supporting the AWA provide minimum standards for the handling, housing, feeding, transportation, sanitation, ventilation, shelter from inclement weather, and veterinary care of regulated animals. APHIS continues to focus on conducting quality inspections at USDA licensed and registered facilities. The program's risk-based inspection system concentrates activities on facilities where animal welfare concerns are the greatest. During fiscal year 2005, the program conducted 16,474 inspections of licensees, registrants, and prospective applicants. This represents a 9 percent increase over fiscal year 2004.

APHIS conducted 575 animal care investigations in fiscal year 2005, resulting in 391 formal cases submitted for civil administrative action. We also issued 219 letters of warning for animal care. During fiscal year 2005, we resolved 87 cases with civil penalty stipulations resulting in \$160,184 in fines. Administrative Law Judge decisions resolved another 82 cases resulting in \$946,184 in fines. High-priority and significant cases included several involving the sale of dogs and exotic animals by unlicensed dealers as well as numerous handling violations involving exhibition animals attacking and/or injuring the public.

Scientific and Technical Services

The programs within this component ensure the effectiveness of the technology and protocols used in APHIS programs. The Agency conducts these programs to develop new or improved methods for managing wildlife damage and detecting and eradicating animal and plant pests and diseases. The Agency also conducts laboratory testing programs to support disease and pest control and/or eradication programs. Additionally, those programs provide advice and assistance to APHIS on environmental compliance requirements with respect to pesticide registration and drug approvals for products used in implementing these programs.

APHIS has successfully regulated the biotechnology industry for almost 20 years. During that time, the Agency has overseen approximately 10,000 field trials without any adverse impacts on human health or significant environmental harm, and has evaluated more than 90 petitions for deregulation to ensure these plants posed no threat to other plants or the environment. As of September 30, 2005, APHIS has granted 68 petitions for deregulation for varieties of the following crops: tomatoes, squash, cotton, soybeans, rapeseed, potatoes, papayas, beets, rice, flax, tobacco, and corn.

To carry out its goal of safeguarding U.S. agricultural resources from foreign pest and disease introductions, APHIS needs the appropriate technological tools. The Plant Methods program develops new or improved existing tools to enhance APHIS' safeguarding capabilities. The program met its fiscal year 2005 performance target of developing five new quarantine treatments or detection methods or improving existing ones for commodities of trade.

In our Veterinary Biologics program, APHIS issued 97 product licenses in fiscal year 2005. Veterinarians and animal owners now have 16 new products for the diagnosis, prevention, or treatment of animal diseases. Of the 16, four new product licenses were issued for biotechnology-based products.

APHIS exceeded its long-term performance measure target in fiscal year 2005 to have 39 States involved with the National Animal Health Laboratory Network (NAHLN). At the end of fiscal year 2005, the NAHLN consisted of 49 State and university laboratories in 41 States that are available to assist our National Veterinary Services Laboratory in animal disease testing. The laboratory network forms the nation's strongest weapon against bioterrorism: an effective network of laboratories capable of integrated and coordinated response to emergencies that could otherwise devastate the U.S. economy and food supply. This key resource of APHIS has increased testing capacity significantly. APHIS and its NAHLN partners are currently testing up to 10,000 samples per week for BSE, 4,800 samples per week for chronic

wasting disease, and 4,800 samples per week for scrapie. Additionally, in a period of extraordinary demands caused by an adverse animal disease event, the network could test up to 18,000 samples per day for AI/Exotic Newcastle Disease or 15,000 samples per day for classical swine fever or FMD.

Growing populations of Canada geese, a Federally-protected species, continue to pose problems for homeowners across the country. In September 2005, APHIS' National Wildlife Research Center (NWRC) received a Notable Technology Development Award from the Federal Laboratories Consortium Mid-Continent Region for its role in the development and registration of OvoControl-G Canada goose bait. Which is the first EPA approved oral contraceptive of its kind. The NWRC also continued work to support the Environmental Protection Agency's approval of a new chemical treatment to reduce the hatchability of eggs laid by treated Canada geese.

FISCAL YEAR 2007 BUDGET REQUEST

The fiscal year 2007 Budget Request for Salaries and Expenses totals just over \$953 million, an increase of \$146 million over the fiscal year 2006 Agriculture Appropriations Act and an increase of \$75 million when the fiscal year 2006 supplemental for avian influenza is included. About \$9.2 million of the increase is for pay raises. Of the total request, approximately \$453 million is identified in the President's Homeland Security initiative, including \$314 million in discretionary funding. Of the \$453 million, \$188 million is also identified in the President's Food and Agriculture Defense Initiative, which serves to protect the agriculture and food system in the United States from intentional, unintentional, or naturally occurring threats.

The increase, approximately 15 percent above the fiscal year 2006 appropriation, is for initiatives designed to address the increasing domestic and international threats to the health of United States agriculture. In the international arena, APHIS plans to use additional funding to establish a formal international information collection program that will help us set agricultural import policy and inform others of our monitoring and surveillance efforts here in the United States, and protect and expand the \$53 billion annual agricultural export market, among other things. We are also addressing HPAI threats in other countries by requesting additional funding to provide technical assistance to develop knowledge and experience in surveillance and control techniques, which will help prevent the spread of HPAI to the United States. On the domestic side, our efforts include enhancements to both animal and plant health surveillance systems and diagnostic capabilities; the ability to track animal and plant pathogens and toxins identified as Select Agents; the build up of our animal disease vaccine bank; the ability to address wildlife disease threats to livestock health; an investment to substantially reduce emergency fund transfers for a variety of plant pest and disease programs; and continuing enhancements to our Biotechnology Regulatory Services program. Our goal is to reduce economic damage that pests and diseases can cause to American agriculture. As such, APHIS is in the process of developing a new performance measure that will allow us to assess the value of the pest and disease damage that our programs are preventing or mitigating, and we will utilize this information to help determine future funding requests. We will begin applying this measure to all of our programs.

The following paragraphs detail some of the funding increases and associated accomplishments expected under the fiscal year 2007 budget request:

Pest and Disease Exclusion

An increase of \$6.4 million for the Foreign Animal Disease/Foot-and-Mouth Disease program and \$4.7 million under Pest Detection to expand the program's formal collection of international health information, which will allow APHIS to conduct risk assessments and regulate imports more effectively as well as provide an overall picture of global animal health trends.

An increase of \$13.85 million for the Fruit Fly Exclusion and Detection program to strengthen the Moscamed (Mediterranean fruit fly) program along the Mexico-Guatemala border to prevent the northward spread of the Medfly into Central Mexico thereby reducing the threat to the United States.

An increase of \$4.68 million for the Trade Issues Resolution and Management program to increase work on Free Trade Agreements, and expand and retain markets to provide new market access and facilitate trade worth \$2.4 billion in fiscal year 2007.

Animal and Plant Monitoring and Surveillance

An increase of \$8.5 million for the Animal Health Monitoring and Surveillance program to enhance the current disease monitoring and surveillance system by increasing and integrating its infrastructure to better protect the nation's animals from emerging and foreign animal disease. The fiscal year 2007 request also in-

cludes continued funding for the maintenance of monitoring and surveillance of BSE (approximately \$17 million for 40,000 samples) and continued implementation of the National Animal Identification System (approximately \$33 million).

An increase of \$1.2 million for the Animal and Plant Health Regulatory Enforcement to provide additional support to APHIS programs by conducting investigations of alleged violations of Federal laws and regulations under the Agency's jurisdiction.

An increase of \$9.1 million for Emergency Management Systems to improve readiness at the Federal, State, Tribal, and local levels to respond to disease incursions or acts of bioterrorism, and respond effectively and efficiently to all hazardous animal health incidents. We will also stockpile sufficient levels of supplies, vaccines, materials, and equipment needed to respond to an outbreak of 50 percent of the most damaging disease agents, or four of the eight most damaging and highly contagious foreign animal diseases.

\$57 million for the new HPAI program (initially funded via fiscal year 2006 supplemental appropriation) to continue the development of the Agency's new HPAI surveillance and preparedness program through efforts with international capacity building (\$5.01 million) and domestic surveillance and preparedness (\$51.72 million).

An increase of \$15.4 million for Pest Detection activities to enhance early detection efforts through an increase in the number and intensity of surveys conducted throughout the United States for high-risk plant pests; enhance emergency response capabilities; and develop molecular diagnostic tools for high-risk pests.

An increase of \$1.8 million for the Select Agents program to register facilities desiring to handle select agents, and enhance current physical security requirements to expand the barcode inventory tracking system.

Approximately \$2 million for the new Wildlife Disease Monitoring and Surveillance program to establish methods for surveillance data collection in wildlife populations and investigate the prevalence of specific diseases that may move from wildlife to domestic livestock or poultry populations.

Pest and Disease Management

A \$16 million shift in funding from Boll Weevil and Pink Bollworm programs to establish a new program, Cotton Pests, to improve technical efficiency by formally merging resources to simplify administration of both programs and help move toward the goal of eradication of both pests.

An increase of approximately \$27 million for Emerging Plant Pests to enhance survey and tree removal to control emerald ash borer (\$21 million); continue conducting surveys for various citrus pests and diseases in Florida (\$2 million); conduct additional inspections in nurseries to determine extent of *P. remora* (Sudden Oak Death) in California, Oregon, and Washington State (\$3.45 million); and continue containment activities for Karnal bunt (\$1.25 million).

An increase of approximately \$10 million for Invasive Species to establish a new competitive grant program to the private sector to apply innovative and cost-effective methods for responding to and controlling invasive species.

An increase of approximately \$3 million for the Low Pathogenic Avian Influenza (LPAI) program to continue addressing LPAI on a national level in live bird markets and commercial industries, and develop and oversee production of AI test reagents to be distributed to State and industry laboratories approved to participate in the LPAI program.

An increase of \$3 million for the Wildlife Services Operations Airport Safety program to enhance human safety by reducing wildlife strikes to aircraft.

An increase of \$1.75 million for rabies control under the Wildlife Services Operations program to maintain the oral rabies vaccination barrier to prevent the spread of this disease.

An increase of \$5 million for Homeland Security and Food and Agriculture Defense to enhance wildlife disease surveillance.

Animal Care

An increase of almost \$1.5 million for the Animal Welfare program to enhance current program operations through the application of the new regulation to inspect facilities that contain mice, rats, and birds not involved in research. We will continue to use a risk-based inspection system to concentrate activities on facilities where animal welfare concerns are greatest, while also developing strategies for effective outreach and education programs to develop expertise and promote voluntary compliance.

Scientific and Technical Services

An increase of \$3.3 million for the Biotechnology Regulatory Services program to enhance our infrastructure for a transgenic program by conducting additional risk

assessments; preparing environmental assessments; advising on policies related to animal and disease agent biotechnology; developing and implementing regulations and guidelines regarding transgenic animals and disease agents; and providing leadership to advance the Agency's use of biotechnology oversight to protect and enhance American agriculture. We will also strengthen regulatory validation activities by developing scientific personnel exchange programs with academia and industry; conducting peer reviews for significant scientific components of biotechnology policies and regulations; and conducting quantitative analyses and studies to support regulatory decisions.

An increase of \$1 million for Plant Methods Development Laboratories to establish a new National Crop Biosecurity Center to coordinate technical and scientific needs for detecting and responding to high-consequence plant pests and diseases. We also will assess current and emerging threats and develop a laboratory accreditation program to certify State and university laboratories to conduct tests for high-risk diseases that have the potential to generate large volumes of samples and overburden the current testing capacity.

An increase of \$3.5 million for Veterinary Biologics to reduce the time it takes to review and test new veterinary biologics products entering the market. We also will address containment requirements to meet the required standards for the use of select agents and toxins maintained by the Center for Veterinary Biologics. In addition, we plan to expand activities in pharmacovigilance (the post-marketing monitoring of adverse events associated with the use of licensed veterinary biological products) with the implementation of a standard data system for sharing resources, data collection methods, and review processes for adverse events reporting with the Food and Drug Administration.

An increase of approximately \$5.5 million for Veterinary Diagnostics to expand diagnostics capability to include additional foreign animal diseases; expand the National Animal Health Laboratory Network to address significant biological and chemical threats to animal agriculture and our national food supply; address security requirements and meet standards related to Select Agents; and achieve NVSL lab accreditation.

A \$3.2 million shift in funding within Wildlife Disease Methods Development to dedicate funding to conduct avian influenza methods development research to improve environmental sample diagnostics, and characterize and evaluate the risk that feral swine pose in the generation and maintenance of avian influenza subtypes of domestic animal and human health concern.

Decreases

To support our high priority programs while continuing to meet the goal of reducing the Federal deficit, we propose several offsetting decreases. Within our Pest and Disease Exclusion activities, we propose a reduction of \$2 million for the Hawaii Interline program within the appropriated Agricultural Inspection Quarantine line item, which we expect to conduct in the future via a reimbursable agreement with the State of Hawaii; a reduction in Cattle Fever Tick activities to the fiscal year 2005 level because we do not anticipate outbreaks occurring outside of the quarantine zone nor an increase in incursions into the quarantine zone; and, a reduction of \$1.2 million in the Import/Export program to dedicate resources to higher priority activities.

Within our Animal and Plant Monitoring and Surveillance activities, we propose a \$2.3 million shift in funding within the Animal Health Monitoring and Surveillance program and an \$830,000 shift in funding within the Pest Detection program to dedicate resources to higher priority activities.

Within our Pest and Disease Management activities, we propose a reduction of \$25.9 million for Boll Weevil program activities due to the program's success in eradicating boll weevil, and other reductions (\$1.5 million for Brucellosis; \$3.3 million for Chronic Wasting disease; \$1.14 million for Grasshopper; \$9.9 million for Johne's; \$1.92 million for Pink Bollworm; and \$763,000 for Noxious Weeds) to dedicate resources to higher priority activities.

Also, in fiscal year 2007, we are re-proposing new user fees for the Animal Welfare program, which would generate \$8.22 million.

Finally, within our Scientific and Technical Services activities, we propose a shift of \$371,000 in our Veterinary Diagnostics program and a \$3.2 million shift in our Wildlife Disease Methods Development program to dedicate resources to higher priority activities.

CONCLUSION

APHIS' mission of safeguarding United States agriculture is becoming ever more critical. Although the processes by which we protect America's healthy and diverse

food supply are being increasingly challenged by increased trade and tourism, APHIS is committed to taking the lead in building and maintaining a world-class system of pest and disease exclusion, surveillance, detection, diagnosis, and response. Healthy plants and livestock increase our market potential internationally, and thus contribute to a healthy U.S. economy. The APHIS budget consists of interdependent components that, when combined, truly protect the health and value of American agriculture and natural resources.

On behalf of APHIS, I appreciate all of your past support and look forward to continued, positive working relationships in the future. We are prepared to answer any questions you may have.

PREPARED STATEMENT OF JAMES E. LINK, ADMINISTRATOR, GRAIN INSPECTION,
PACKERS AND STOCKYARDS ADMINISTRATION

INTRODUCTION

Mr. Chairman and Members of the Committee, I am pleased to highlight the accomplishments of the Grain Inspection, Packers and Stockyards Administration (GIPSA), and to discuss the agency's fiscal year 2007 budget proposal.

GIPSA's activities are an integral part of USDA-wide efforts to support a competitive global marketplace for U.S. agricultural products. Our mission is to facilitate the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products, and to promote fair and competitive trading practices for the overall benefit of consumers and American agriculture.

We fulfill our service and regulatory roles through our Packers and Stockyards Program, which promotes a fair, open, and competitive marketing environment for the livestock, meat, and poultry industries and our Federal Grain Inspection Service, which provides the U.S. grain market with Federal quality standards and a uniform system for applying these standards to promote equitable and efficient marketing.

ORGANIZATION

We carry out our mission with a dedicated staff of 680 employees working in partnership with a variety of State and private entities. Our Packers and Stockyards Program relies on three regional offices which specialize in poultry, hogs, or cattle/lamb. Our grain inspection services are delivered by the national inspection system, a network of Federal, State, and private inspection personnel. The system includes 9 GIPSA field offices, 1 Federal/State office, and 56 State and private agencies authorized by GIPSA to provide official services.

PACKERS AND STOCKYARDS PROGRAM

Our Packers and Stockyards Program (P&SP) administers the Packers and Stockyards Act (P&S Act) to promote fair and competitive marketing in livestock, meat and poultry for the benefit of consumers and American agriculture. The P&S Act is intended to protect producers, other market actors, and consumers against unfair, discriminatory, or deceptive practices that might be carried out by those subject to the Act.

To meet this objective, GIPSA seeks to educate, regulate and investigate individuals and firms subject to the P&S Act; to respond to anti-competitive behavior, unfair, deceptive, or unjustly discriminatory trade practices; and to ensure livestock producers and poultry growers are paid for their products. GIPSA takes corrective action when there is evidence that firms or individuals have violated the P&S Act.

In April 2005, the USDA's Office of Inspector General (OIG) initiated an audit in response to Congressional concerns with the Agency's management and oversight of P&SP. The audit identified four primary areas where program management was not up to the high standard that this Administration expects and our stakeholders deserve.

The OIG provided ten recommendations for strengthening P&SP. GIPSA concurs with all recommendations and is taking immediate actions to implement them. We have already taken steps to improve the management of investigations, to correct how we categorize and track investigations and to implement additional recommendations from prior OIG and Government Accountability Office reviews. The Administration takes the Inspector General's findings very seriously and we have established an aggressive schedule to improve the enforcement of the P&S Act.

While improvements are needed, P&SP has delivered valuable services to the livestock, meatpacking, and poultry industries. With only 136 employees, we continued to regulate these industries, estimated by the Department of Commerce in fiscal

year 2002 to have an annual wholesale value of \$120 billion. At the close of fiscal year 2005, 5,569 market agencies and dealers and 1,858 packer buyers were registered. In addition, there were 1,443 facilities that provided stockyard services, an estimated 6,000 slaughtering and processing packers, meat distributors, brokers and dealers, and 202 live poultry dealers operating subject to the P&S Act.

Our regulatory responsibilities are the heart of our mission to administer the P&S Act. To this end, GIPSA closely monitors practices that may violate the P&S Act. Last fiscal year, we conducted 1,936 activities related to compliance with the P&SP Act. These activities included 1,491 regulatory activities such as financial audits and scale check weighs and 445 investigations of P&S Act violations. As a result of these investigations, P&SP helped recover over \$14.1 million for producers and enforced the restoration of nearly \$350 million to custodial accounts and business balance sheets to protect producers from financial harm.

We continue to work with violating firms to achieve voluntary compliance, and continue to initiate appropriate corrective action when we uncover evidence that the P&S Act has been violated. In fiscal year 2005, with assistance from the Office of the General Counsel, we filed 18 administrative or justice complaints alleging violations of the P&S Act. These formal disciplinary complaints resulted in 21 decisions ordering the payment of \$116,300 in civil penalties and suspending 7 registrants from operating for periods ranging from 21 days to 6 years. In one specific case, GIPSA worked through informal resolution channels to obtain voluntary compliance when a market agency and dealer operation in the Midwest discovered one of its employees had defrauded the company in excess of \$1 million. Through GIPSA's timely intervention, the firm secured sufficient financial protection so that none of the company's livestock sellers suffered losses.

We regularly assist the FBI, State and local law enforcement agencies with their investigations. Some of our investigations involve overlapping jurisdiction, and sometimes these agencies call on GIPSA for its expertise. In addition, we communicate with our sister agencies within USDA, the Department of Justice, the Commodity Futures Trading Commission, and local and State governmental organizations to discuss common issues and when appropriate, coordinate plans.

GIPSA maintains a toll-free hotline (800-998-3447) as an avenue for receiving complaints and other communications from livestock producers, poultry growers and other members of the industry or general public. Use of the hotline allows callers to voice their concerns or file a complaint anonymously without fear of retaliation. In fiscal year 2005, GIPSA's Packers and Stockyards Program received 39 hotline calls. Those calls that related to livestock or poultry issues resulted in investigations. To encourage voluntary compliance, we regularly attend industry meetings and conduct orientation sessions (28 in 2005) for new auction market owners and feed mills to educate them about their fiduciary and other responsibilities under the P&S Act.

In fiscal year 2005, we continued working with stakeholders and other interested parties to develop and publish two additional voluntary industry standards for technologies used to assess quality and determine payment for livestock, meat, or poultry. The tentative code was published by the American Society for Testing and Materials in the 2006 National Institute of Standards and Technology—Handbook 44 "Specifications, Tolerances and Other Technical Requirements for Weighing and Measuring Devices", which was released in October 2005. The new standards will help producers receive full value for the quality of livestock they produce as well as help packers pay only for the product they want to purchase. We will continue to work with stakeholders to develop additional standards, as needed, to enhance transparency in the marketplace.

GIPSA continues to operate the Swine Contract Library (SCL) which includes information pertaining to price, premiums, discounts, grids, formulas, and other important contract terms extracted from offered and available contracts used to purchase hogs. The data is available on GIPSA's website on a real time basis. In October 2005, the reporting requirements under the Livestock Mandatory Reporting Act of 1999 became voluntary due to the sunset of the law.

GIPSA continues to administer a livestock and meat marketing study that examines the broad issues surrounding packer ownership of livestock. Research Triangle Institute (RTI), the firm with whom GIPSA has contracted to complete the study, released an interim report in August 2005. RTI began contacting survey respondents in November 2005 and collecting transaction data in February 2006. The final report is scheduled for release in early 2007.

FEDERAL GRAIN INSPECTION SERVICE

Our Federal Grain Inspection Service (FGIS) facilitates the marketing of U.S. grain and related agricultural products through the establishment of standards for quality assessments, regulation of grain handling practices, and management of a network of Federal, State, and private laboratories that provide impartial, user-fee funded official inspection and weighing services under the authority of the U.S. Grain Standards Act and the Agricultural Marketing Act of 1946.

FGIS establishes terms and methods for quality assessments that the grain industry uses to buy and sell about \$50 billion of commodities annually. These standards for quality assessments provide the U.S. grain marketing system with the means to align post-harvested crop quality with the diverse end-use needs of today's food and feed industry. GIPSA currently maintains 131 unique standards and quality assessment factors to characterize the quality of grain and grain-related products.

We continue work with producers, technology providers, and food and feed manufacturers to consensually identify the essential quality attributes that require standard measurement to effectively differentiate quality and add value to U.S. agriculture. In fiscal year 2005, GIPSA implemented artificial neural network (ANN) technology to streamline and improve the accuracy of the wheat protein testing program, and to offer, for the first time, a barley protein testing service. The new official ANN protein testing services facilitate the marketing of these grains by providing a fair, accurate, and transparent third-party determination, backed by a national quality control process, and standardized instrumentation, reference samples, calibration, and procedures.

GIPSA also conducted activities related to soybeans in fiscal year 2005. GIPSA verified and adopted an American Oil Chemists' Society (AOCS) gas chromatographic method as a reference method to measure levels of various fatty acids in soybeans, including linolenic acid. Soybeans with lower linolenic acid levels were introduced during 2004. "Low-lin" soybeans produce oil that has half the linolenic acid level of commodity soybean oil, making it more stable and reducing or precluding the need for hydrogenation—the process that creates unhealthy trans fats in foods. This standard quality assessment method will help the market capture the full value of this emerging product. GIPSA continues to explore rapid tests for fatty acid contents of soybeans and other grains.

We are also working with the wheat industry in an effort to regain the U.S. wheat market share which has declined from 33 percent of the international market in 1995 to an estimated 25 percent in 2005.

Our goal is to develop rapid measurement methods to differentiate wheat quality at the first point of sale and allow the U.S. wheat industry to better meet the needs of foreign buyers. To date, working with the wheat industry, we have identified several key quality attributes, such as gluten strength, that require rapid measures, as well as the need to validate international reference methods relating to the attributes.

In fiscal year 2005, GIPSA validated and adopted three widely used, internationally recognized reference methods that assess various aspects of protein quality in wheat: the Farinograph reference method to measure water absorption and dough strength; the Glutomatic reference method for wet gluten quantity; and the Alveograph reference method to measure dough strength.

Gaining consensus on the salient wheat attributes and reference methods will allow GIPSA to pursue the development of rapid analytical methods for use at the first point of sale.

As we develop measures of new attributes entering the market, we are ensuring the current measurement methods are accurate and cost-effective. For example, we are working to transform the measurement of grain moisture. Maintaining current calibrations for moisture measurement is time consuming and resource intensive. Advances in the basic means to measure moisture, led by GIPSA, have the potential to greatly reduce maintenance costs and improve the accuracy of moisture measurements over a much wider range. These advances will benefit the entire grain industry, from producer to food manufacturer.

We are also working with stakeholders to ensure grading standards further facilitate trade. GIPSA is developing national feed pea standards to meet surging production and use of peas for feed. As the global competition in soybean markets intensifies, we are collaborating with the soybean industry to determine whether changes in analytical methods and grading standards would improve the U.S. competitive position. One grading factor under review is test weight per bushel, a factor used to market soybeans in the United States for over a half century, but not used by our major international competitors. We are also working closely with the wheat industry to ensure the wheat standards facilitate the expansion of the new and evolving

ing market for Hard White Wheat. In 2005, we amended the U.S. Standards for Wheat to change the definition of contrasting classes in Hard Red Winter wheat and Hard Red Spring wheat. The new standard and policy will ensure the purity of both the Hard White and the Hard Red classes, which is essential to promote market growth and meet the needs of those making high-quality wheat products for consumers around the world. All of these activities improve the American agriculture's ability to deliver the specific quality of grain desired by food manufacturers and consumers, and strengthen its competitive position in the global market.

In the biotechnology arena, we are improving the reliability and accuracy of testing for the presence of modern biotechnology-derived grains to help U.S. agriculture avoid market disruption as trading partners around the world implement new import requirements. Our Test Kit Evaluation Program validates the performance of commercially available rapid tests for biotechnology-derived grains. Our Proficiency Program improves the performance and reliability of government and private laboratories that test for biotechnology-derived grains in the United States and worldwide. More than 115 organizations participated in the program in fiscal year 2005, compared to 22 in 2002.

In response to the results of the proficiency program, we are working to harmonize international reference materials and biotechnology measurement methods used in commerce to measure the level of biotechnology-derived events in raw agricultural products. The current focus of many laboratories is to assay for the presence or absence of a particular transgenic event, whereas the regulatory requirements evolving for agricultural products usually require reliable methods to measure the quantity of a biotechnology derived event.

Our international outreach goes beyond work in the area of biotechnology. We work cooperatively with other government agencies to support market development and remove obstacles to U.S. grain reaching world markets.

In recent years, we have focused on providing technical support to the Mexican and Asian markets. Last year, GIPSA worked with Mexico's private and public grain sectors to harmonize sampling and analytical methods with the goal of minimizing trade disruptions due to differences between GIPSA-certified quality and an importer's own quality assessment. We conducted seminars at three major grain importing locations in Mexico for personnel from Mexican commercial firms and government agencies to educate buyers on grain contracting, U.S. grain standards, sampling, and inspection procedures. We also spearheaded the establishment of a government-to-government grain industry consultative group as a technical-level forum to address cross-border grain quality issues. Finally, GIPSA led a USDA team that visited key Mexican border inspection offices to facilitate cross-border trade by addressing Mexico's inspection and clearance process for U.S. grain shipments to Mexico.

Since fiscal year 2002, GIPSA has placed a temporary duty officer in Asia to address immediate and long-term issues in the region, to promote a better understanding and adoption of U.S. sampling and inspection methods to minimize differences in inspection results and to develop face-to-face relationships with customers, USDA cooperators and government officials. During fiscal year 2005, a GIPSA officer served on a 7-month assignment in the region. In fiscal year 2005, this program allowed GIPSA to respond face-to-face to importers in Japan who raised concerns regarding dockage levels in U.S. wheat; to Taiwanese importers about differences in grain weight; and to representatives of Malaysia and Singapore regarding U.S. soybean quality. We also were able to share samples with Japan to allow them to monitor pesticide residue levels in U.S. wheat, rice, and barley, before they implement new domestic residue limits. Finally, GIPSA's representative participated in several marketing seminars sponsored by USDA cooperator organizations to inform importers and their governments about the role and responsibilities of GIPSA and the national inspection system.

We also provide technical consultative services for international customers. During fiscal year 2005, GIPSA facilitated the reopening of Iraqi grain markets to the United States for the first time since 1999, leading to wheat sales of \$107 million in 2005. We provided technical monitoring and on-site inspection expertise for U.S. wheat shipments from their departure point in the United States to their arrival in Syria and final destination in Baghdad.

Also during the fiscal year, GIPSA installed and checked tested laboratory equipment to inspect and grade wheat in Yemen; conducted wheat grading and inspection seminars in El Salvador and Tunisia; worked with Algerian grain buyers to address Karnal bunt concerns; met with Peruvian officials to discuss the effects of their new rice import regulations; developed sample collection procedures for Japan's Ministry of Agriculture, Forestry and Fisheries; participated in several international meetings on implementing the Biosafety Protocol; continued to work with Chinese offi-

cials to discuss biotechnology, the Biosafety Protocol, and their impact on trade; helped the USDA/Foreign Agricultural Service and Animal and Plant Health Inspection Service resolve various grain quality issues in other countries that would otherwise have restricted U.S. grain exports; and briefed visiting trade and governmental teams representing 44 countries around the world.

In addition to facilitating the marketing of U.S. grain by developing grain quality assessment methods and carrying out international outreach efforts, GIPSA administers a national inspection system comprising Federal, State, and private laboratories. These laboratories provide valuable service to all sectors of the grain industry on a user fee basis, 24 hours a day, 7 days a week. The world recognizes the certificates issued by these laboratories as the gold standard for grain quality certification. Buyers and sellers around the world have confidence in and rely on the GIPSA certificate to trade grain.

This confidence was earned. The dedicated Federal, State, and private employees of the national grain inspection system work tirelessly to ensure the integrity and reliability of the national inspection system. The dedication and professionalism of GIPSA employees was proven last year in the aftermath of Hurricanes Katrina and Rita. Four GIPSA offices (New Orleans and Lake Charles, Louisiana, and League City, and Beaumont, Texas) were in the paths of these storms. Through the superlative efforts of employees in New Orleans, Louisiana, and League City, Texas, all agency employees were located and inspection personnel were working with industry with 48 hours after the hurricanes passed to get U.S. export port operations in the Gulf online. Within a week, employees in the affected area had set up an alternate field office and were responding to industry service requests. Local GIPSA employees, many of whose homes were lost or destroyed, were on duty. Within 3 weeks, the New Orleans field office was fully operational.

GIPSA's Beaumont, Texas, and Crowley/Lake Charles, Louisiana, offices took direct hits from Hurricane Rita. The Crowley/Lake Charles office suffered moderate damage and was fully functional within a week. The Beaumont suboffice was severely damaged by Rita and closed for a month but is now fully operational.

We are proud to report that no service requests were denied as a result of the hurricanes. GIPSA personnel were on duty and ready to provide service as soon as the industry resumed operations. Our local personnel showed fortitude and determination in addressing both the personal and work-related challenges engendered by the storms. All told, GIPSA employees issued nearly 3 million certificates representing approximately 245 million tons of grain during fiscal year 2005.

GIPSA continuously works to improve service delivery by this network of laboratories and meet the needs of a changing market. In fiscal year 2005, we revised the regulations on short-voyage fumigations to facilitate the movement of waterborne grain shipments of 5 days or less duration.

EGOVERNMENT SOLUTIONS

Our most ambitious undertaking to improve program operations and service to the public is a sweeping, multi-year project to upgrade information management systems and modernize our business functions. Our current information management system consists of several independent systems that have served specific purposes over the years well, but are not integrated. This has limited our ability to meet the growing demand for electronic, or web-based, delivery of our services. It also impedes our efforts to improve the cost effectiveness and efficiency of our internal business practices. The enterprise-wide system currently under development will modernize nearly every aspect of GIPSA operations and provide a great opportunity to improve current business practices and service delivery. The new system includes twenty-seven applications to be built over 5 years.

New funding provided in fiscal year 2005 and fiscal year 2006 along with the redirection of existing funds has enabled GIPSA to begin development on ten of the twenty-seven GIPSA Application Modernization modules. Currently funded components of the new system will be deployed incrementally in 2006 and 2007 with the first seven applications scheduled for deployment in the spring of 2006. This long term initiative is scheduled to continue through fiscal year 2009. We have requested additional funding in fiscal year 2007 to support this important initiative.

When completed, customers will have online access to the information and applications they need to file complaints with GIPSA via the Internet; receive status reports on a complaint; place claims against bonds required under the P&S Act; register as a grain exporter or livestock dealer; submit required annual reports; request grain inspection services; receive reports on service status; see the status of their user-fee account; and receive final certified results online which will, in turn, allow customers to integrate official inspection data into their own information and docu-

ment management systems. Private and State inspection agencies interested in being authorized to provide official inspection services will also be able to apply for GIPSA designation and re-designation on-line. Once officially designated, these agencies will have direct access through the web to GIPSA's extensive quality assurance program to ensure their inspection results align with the official standards maintained by GIPSA.

This modernization effort will create synergy across GIPSA programs and data sources, allowing GIPSA to improve internal program efficiencies and effectiveness. This large multi-year initiative will deliver improved performance and reduce costs years into the future.

PROTECTING THE HOMELAND

In addition, GIPSA has dedicated resources to homeland security efforts. We continue to work closely with the USDA Office of Crisis Planning and Management (OCPM) to refine the Department's and the Agency's Continuity of Operations Plan (COOP) and to support and staff the Department's Crisis Action Team (CAT). In fiscal year 2005, GIPSA's COOP and CAT representatives participated in critical disaster-related exercises and training sessions, including a major government-wide exercise.

We provided technical assistance related to homeland security issues to a number of industry and governmental groups, including the USDA Homeland Security Working Group; worked with the National Food Laboratory Steering Committee to coordinate and integrate resources to support key components of the Food Emergency Response Network (FERN); and participated on an Federal Bureau of Investigation-led team that conducted a threat assessment of a major export grain elevator.

2007 BUDGET REQUEST

To fund important initiatives and address the Agency's responsibilities, GIPSA's budget request for fiscal year 2007 is \$41.5 million under current law for salaries and expenses and \$42.5 million for our Inspection and Weighing Services. These budgets include additional requests of \$673,000 for employee compensation; \$2,870,000 to continue the modernization of our information management systems and business functions; and \$405,000 for international services; and a decrease of \$500,000 for the corn growers initiative. In addition our request includes a proposal to recover \$19.7 million through user fees to cover the costs of grain standardization activities and Packers and Stockyards program activities.

An increase of \$673,000 for employee compensation will enable GIPSA to meet its objectives consistent with the priorities established by the Secretary of Agriculture. This critically important increase is needed to support and maintain current staffing levels to meet projected increased demand.

We are requesting an additional \$2,870,000 for our IT modernization initiative. This multi-year project will upgrade information management systems and modernize our business functions. This request includes \$1.4 million to continue the development of eGov solutions and \$1.5 million for recurring costs associated with the maintenance of these applications.

We are also requesting an additional \$405,000 to establish an ongoing presence in Asia allowing GIPSA to continue and expand upon our successful international services and trade activities currently provided on a temporary basis. GIPSA's hands-on approach of assigning a temporary duty officer in Asia to facilitate trade of U.S. grain has provided a positive impact on existing and potential buyers. These buyers say their concerns related to grain quality are addressed effectively. Continuing and expanding this program is crucial not only to increasing U.S. grain exports and reducing market disruptions due to technical differences in analytical methods and standards, but to increase satisfaction and loyalty among our current customers in an extremely competitive marketplace. The U.S. trade dollars saved upon the resolution of just one grain shipment complaint can far outweigh the costs associated with maintaining a GIPSA presence in Asia.

Part of our appropriation request will be derived from proposed new user fees. The budget proposes collecting \$3.7 million from grain standardization user fees and \$16.0 million from Packers and Stockyards Program licensing fees after a 3 month start-up period.

CONCLUSION

Mr. Chairman, Members of the Committee, thank you for the opportunity to share some of the accomplishments made by our dedicated staff and highlight our future plans to facilitate the marketing of U.S. agricultural products and to promote fair

and competitive trading practices for the overall benefit of consumers and American agriculture.

I would be pleased to address any issues or answer any questions that you may have.

Thank you.

Senator BENNETT. Thank you very much. Appreciate the testimony of all of you.

USER FEES

Dr. Collins, let us talk about user fees. FSIS proposes a user fee. If this were authorized, what would be the impact on domestic slaughter capacity and facilities? Would this increase the price of meat at the supermarket counter? Would it be absorbed? How would that happen?

Mr. COLLINS. Mr. Chairman, a user fee is an increase in processing costs, and the way economics looks at that is that if slaughter is a competitive industry, that is, it is buying its inputs from a competitive industry and selling its outputs in a competitive industry that, over time, the increase in processing costs will be passed on. It will not be borne by the processor. It will be passed back in some form to the supplier of the live animal to the slaughterhouse. It will also be passed forward to consumers.

Generally, because consumer demand for meat is so unresponsive to price, most of the processing costs over time would be passed on to consumers. The user fee that I believe has been proposed, which is for inspection beyond the regular 8-hour shift, would generate about \$105 million in revenue.

That would be small in the context of our meat production; we produce or we expect to produce in 2006 about 90 billion pounds of meat in the United States. That would be red meat, plus poultry. So if you divide that production into \$105 million, it turns out to be about one-tenth of one cent effect on the price of meat if that user fee is passed fully forward 100 percent to the consumers.

So I find it hard to suggest that the fee would have much effect at all on the meat packing industry, which, incidentally, is getting a little bit better margins right now compared to a year ago.

Senator BENNETT. Okay. Thank you.

AVIAN INFLUENZA

Let us talk about avian flu. If a widespread depopulation should occur, what do you think the effect of that would be on the industry as a whole? I am not predicting that it would occur—

Mr. COLLINS. No, you are hypothesizing a widespread incident in the United States?

Senator BENNETT. Right.

Mr. COLLINS. We have already seen it, of course, in many countries around the world, which has had some impact on our exports.

If we had such an outbreak in the United States, there are a lot of scenarios that could play out. But clearly, the effect is going to be focused in two areas—the exports of poultry products, including broilers, turkeys, and eggs, and in the domestic demand for those products with secondary effects on feed markets.

I think the impact is going to depend very much on the size of the outbreak, where the outbreak occurs, whether it is in major or

minor producing States. It is also going to depend on the effectiveness of APHIS in eradicating the outbreak. So the economic effects will depend on those factors.

But, of course, we would immediately lose some exports. It would be incumbent upon Dr. Lambert and Dr. Penn to work with other countries to ensure that any suspension of imports by those countries would be quickly regionalized just to those States where the outbreak occurs. If that is the case, then we might be able to reduce, fairly quickly, the effect on our exports.

Regarding domestic demand, the United States has been incredibly resilient in the face of any kind of animal disease for many, many years. You can go back to the 1983–1984 high pathogenic avian influenza (HPAI) outbreak in Pennsylvania and the eastern States, and poultry consumption actually went up that year. We have had other high-path incidents, such as Texas in 2004 with no effect on poultry consumption.

There could possibly be some small effect because of the front-page news that Avian influenza (AI) has had for so long. But I think, again, effective eradication and depopulation would limit any domestic consumer effect.

You know, we use as a rule of thumb, if we were to lose 10 percent of our exports, we say that would probably reduce poultry prices by about 3 percent, which on a \$23 billion industry for broilers would be about \$700 million.

So there are any number of scenarios that you can play out here, but I think that on the domestic side, it ought to be manageable. And I think with good work by APHIS and our trade experts, we can limit the damage on the export side.

Senator BENNETT. Thank you. That kind of analysis is helpful in a world that is filled with hype about all of these various issues.

BOVINE SPONGIFORM ENCEPHALOPATHY

Dr. Lambert, let me swing back to you now, as long as we are talking about these kinds of problems, and have you tell us what happened in Japan when you were over there. And they have shut their market down again because of a single cow with BSE.

And you have just returned. You are quoted extensively, I hope accurately. But having been in public life now, I know that is not always the case. So tell us, briefly, what you found and what you see with respect to our possibility of reopening the export market for beef in Japan.

Mr. LAMBERT. Thanks, Mr. Chairman.

The technical team that went to Japan consisted of representatives from APHIS and AMS and MRP, but also the Food Safety and Inspection Service and the Foreign Agricultural Service. And we were there after the finding of this one cow that was not consistent with Japanese criteria in January. The Japanese government did shut off all imports or suspended all imports of U.S. product.

The Secretary promised a thorough and extensive investigation into that incident. We have completed that investigation and submitted a 475-page report. After that, there were follow-up questions to which we responded. Then, in spite of those efforts, there were continued gaps in the understanding of officials in Japan about how this incident occurred and the measures that we were

going to put into place to assure that we can at least minimize, to the extent humanly possible and hopefully prevent another incident like this from happening.

So the team was there primarily to address these gaps in understanding. I feel that we were successful in doing that. We have both identified the next steps that our governments will take.

From the USDA side, we will provide a checklist of all the new measures that the Secretary indicated and that were indicated in the report and that we agreed to during our discussions these last couple of days. We will provide a checklist of that to the Japanese government and get concurrence that these are the changes that processing plants need to make in order to resume trade.

Once that happens, FSIS and AMS will re-audit the plants that are eligible to export to Japan with an eye toward getting Japan's technical people into the plants to do follow-up verification audits and verify, in fact, that we have made the changes we said we would, and re-establish trade.

Senator BENNETT. Do you have any kind of guess as to the timetable?

Mr. LAMBERT. These timelines are always a crap shoot. We have committed that we will respond just as fast as we can with the checklist. Once that takes place, we will have people in the plants and perform the verification audits just as fast as we can. That probably will take in the neighborhood of 10 days to 2 weeks. The next challenge will be to get the audit teams from Japan onsite to conduct the verification visit.

We are optimistic, but in these types of situations, unanswered questions continue to arise. I should mention, too, that while we are doing the audits, the Japanese government will begin communication and outreach with their consumers to explain the changes that have taken place and to help reassure Japanese consumers of the safety and wholesomeness of the product as we move forward to reopening trade.

Senator BENNETT. Good. Thank you very much.

PUBLIC LAW 480 TITLES I AND II

Dr. Penn, the fiscal 2007 request provides no funding for Public Law 480, Title I. But it does provide an increase of \$80 million for Title II. Do you want to talk about that?

Mr. PENN. Yes, Mr. Chairman, thank you for the question.

We have, for the first time ever, not asked for funding for Title I because, as I indicated in my statement, it has been our experience that the use of that program has dwindled away. In the last fiscal year, we only had two government-to-government concessional programs operating. And so, various countries are using that program less and less.

Senator BENNETT. Just for information, which two countries?

Mr. PENN. One in Latin America and one elsewhere, but I can't tell you off the top of my head.

Senator BENNETT. Okay. Fine. All right.

Mr. PENN. But we did, as you noted, propose an increase of \$80 million for Title II. So all of the Public Law 480 funding will be made available through Title II.

More and more of that is used for emergency purposes. We are seeing a greater need all around the world, and especially on the African continent, for emergency funding. And so, more and more of the resources will be devoted to that.

Senator BENNETT. Okay. Fine.

Senator Kohl, I will come back later on. But let us hear from you. Thank you.

SPECIALTY MARKETS

Senator KOHL. Dr. Lambert, at one of our hearings last year, I asked about opportunities for small farmers who are seeking niche or specialty markets. The response I got, talked about credit programs that are available and a number of grant programs to help with the value-added product development.

Both things help, but I think there are a lot of opportunities out there for men and women who are creative, willing to work hard as independent business owners, and don't want to have their livelihoods controlled by some large mega grain or livestock company.

This past November, USDA proposed a rule change to allow China to export processed poultry products back into the United States. It seems to me that if the department could find a way to help Chinese poultry make their way back into the United States, they should push as hard or harder to help our own farmers develop niche or specialty markets.

So can you point to any USDA actions taken recently to help small producers?

Mr. LAMBERT. Well, we have a number of programs within MRP that work with small producers. Among these are the process verified and organic programs. There are ways that producers can verify that they have a unique or specialty product to market in niche or specialty markets.

The organics program is rapidly growing. One of the budget requests we have this year is for an additional \$1 million for the organics program based solely on the expanding demand for organic products. So there are a number of programs where we work with small and mid-sized farmers.

We also have the farmers markets that allow individual producers to market their produce and goods directly to consumers, and that has been a growing and very successful program.

With respect to the processed poultry from China, basically, that is for only United States or Canadian product, or product that is eligible for export to the United States to be processed or value-added in China and then re-exported to the United States. But, as I say, we do have a number of programs that support specialty crops, including block grant programs for specialty crop producers that facilitate niche marketing both by small and mid-sized producers.

Senator KOHL. On these farmers markets, last year we provided funds for the program to promote farmers markets. But they are not included in your budget this year. Have I missed something?

Mr. LAMBERT. The 2007 budget includes \$1 million that provides for block grants of up to \$75,000 per farmers market to do outreach and promote those activities. That is included in the 2007 budget.

ALTERNATIVE FUELS

Senator KOHL. Thank you.

Dr. Collins, over the past several years, there has been a lot of talk about alternative fuels. The President's State of the Union address increased interest in this subject.

As an economist, do you believe that the development of alternative fuels is good for our country and, in particular, is it good for rural America? Can you describe how the market's regulations and technology have changed over the recent years and have made alternative fuels more or less attractive?

Mr. COLLINS. Certainly, Senator Kohl.

Yes, I think we are in the midst right now of quite a transformation in thinking about alternative fuels. I can remember when I first started working at the department, we actually had our energy office being an opponent of ethanol. We were worried about creating a subsidy-dependent commodity with an uncertain value.

But I think as we have gone through the 1990s, and particularly in this decade, there has been a substantial change. This substantial change relates to, of course, what happened on 9/11, the concern about energy security, the concern about diversification of energy supplies.

We have an exploding trade deficit. One third of our trade deficit is oil imports. We have also had energy prices soar to unprecedented levels. That has changed the backdrop in which alternative fuels now are looked.

In addition to that, we have the environmental side of alternative fuels. Today, people are valuing alternative fuels not just for their BTU content in the gasoline tank, but for their environmental value, for their rural development, employment creation opportunities, for their trade deficit reduction, for their energy security.

I would say that many people are valuing it that way. The Wall Street Journal aside, of course—if you saw their editorial this week—which seems to miss most of those points.

I would say also a point that you made is the development of new technologies. You could probably go back into the 1980s and find ethanol being produced at a cost of over \$2 a gallon. It fell by the early 2000s to about 95 cents a gallon as its cost of production. It is now probably about \$1.10 a gallon, mainly because of the higher price of energy, as a lot of natural gas is used in ethanol production.

But I think this combination of new technologies and, of course, the President talked about down the road by 2012, hopefully, the commercialization of cellulosic conversion to ethanol, this advent of all of these new technologies, combined with the environment in which we find ourselves with high fuel costs, have really changed the thinking about ethanol.

And of course, you are seeing that in the explosion of production across rural America. And yes, I do believe that this is an enormously important opportunity for rural economic development.

If you look at the value of our oil imports, they exceed the total net cash income of agriculture. So even capturing a small portion

of that for agriculture could be very important to farm income and rural economic growth.

COMMODITY SUPPLEMENTAL FOOD PROGRAM (CSFP)

Senator KOHL. Thank you.

Mr. Bost, when Secretary Johanns was here, we briefly discussed elimination of the Commodity Supplemental Food Program, CSFP, which, as you know, provides food boxes to low-income elderly individuals and also some women, infants, and children.

He stated several reasons why USDA believes this program is no longer necessary, including the fact that seniors can move to food stamps, there simply isn't enough money, and that the program only operates in a limited number of States.

Is CSFP the only nutrition program that operates in a limited number of States?

Mr. BOST. Senator Kohl, in this particular program, it is not only in a limited number of States, in those States, it is not even State wide. Right now, it is in 32 States, 2 Indian reservations, and the District of Columbia.

As I said in my opening statement, when you put together a budget, you are not able to do everything that you would like to do. We feel strongly that many of the people currently served in this specific program would be better served in other nutrition assistance programs that essentially are in existence across the Nation—for example, the WIC Program and, for the elderly participants, the Food Stamp Program.

Senator KOHL. Well, a little bit of the math on that. The CSFP program was last year funded at \$109 million, and it served over 420,000 people, nearly 90 percent of whom were seniors. The increase in food stamps in the budget to take care of these people the USDA says it plans to switch from CSFP is only \$50 million, with an additional \$18 million in transition benefits.

So it seems to me that the funding levels show a discrepancy, and how would you explain that people are not going to lose benefits under this plan?

Mr. BOST. Senator Kohl, as we are transitioning the elderly eligible participants in this program, we are providing them with \$20 a month until they do participate in the Food Stamp Program. However, it is true given the income levels of some of the CSFP participants, they probably would not be eligible to participate in the Food Stamp Program.

One final point, the average amount of money that we believe many of the elderly would be eligible to receive in the Food Stamp Program would be approximately \$63. So, they would actually get more. Some of them—not all of them—would actually get a higher benefit under the Food Stamp Program as opposed to the value of their benefit as a participant in CSFP.

Of course not all of the elderly are eligible for the average Food Stamp benefit, which currently is about \$63. The food box that they get in CSFP is delivered. They do not have to go get it. There is some belief that many of these seniors will not participate in the Food Stamp Program for this reason.

But we believe that, working with our partners, building in transition, we will be able to pick up and offer these services to a significant number of persons.

The other point that I want to make, finally, is for those that are not eligible for either the Food Stamp or WIC Program, there is another nutrition program we have available in which they will probably be able to participate, which is our TEFAP program.

Senator KOHL. So you are saying that in many States, like my own State, those people who are receiving the benefits of this program won't be disadvantaged?

Mr. BOST. Some of them may be, but not all of them. That is why it is a very difficult budget decision for us to make because some may be adversely affected.

But we are going to do our best to ensure that those who are eligible to participate in our nutrition assistance programs, are picked up. And for those that are not eligible they will be provide with other resources like the TEFAP program.

MEAT AND POULTRY IMPORT REQUIREMENTS

Senator KOHL. One question for Dr. Raymond. We have recently heard reports that FSIS is working to set up a trial program during which some Canadian plants will be able to export beef into the United States without requiring daily inspections, which is something that we require in this country.

I know that most recently this trial has been put off until at least July, but apparently, it is not off the table. One of our most important safety requirements for bringing food into this country is that the exporting country has to have the equivalent food safety requirements as we do, and this project appears to throw that out the window.

Are you considering lessening the requirements on our food plants at home for less than daily inspections? Do you think this would be wise, especially when certain countries already have questions about our food safety program? Would you talk about this trial program that you have on the table?

Dr. RAYMOND. Certainly, Senator Kohl.

First of all, to clarify, the trial program has not been established as exactly what it will look like. One of the possibilities is that the Canadian government would do daily inspection for 3 months in 50 plants that export to the United States and do intensified laboratory testing for food-borne pathogens. Then they would do 3 months of less than daily inspection and continue with the enhanced laboratory testing so they could compare food product contamination rates for daily inspection and for less than daily inspection.

When that product is tested, that product would not be shipped across the border to the United States until it tested negative for food-borne pathogens. That is just one proposal. That is not necessarily the proposal that will take place.

First of all, they may not do any project. They may not do any test for equivalency of less than daily. That is their choice.

But the point right now is that they cannot export product to America unless they have daily inspection in those plants, which

they are now doing. All of the facilities that export to the United States have daily inspection.

If they want to try to show us that less than daily inspection is equivalent in safety, they have to devise a project that would satisfy our requirements to evaluate that. We are still in negotiations with them on that issue.

I hope that clarifies that issue. They have been doing daily inspection since August 22, 2005.

Senator KOHL. Okay. Well, I understand there is a trial program under consideration in Australia to export beef to America from plants that pay for their own inspectors, something that we don't allow in this country. As you know, we pay for meat inspectors, believing Government employment is the best way to make sure that our meat stays safe.

Are we thinking about a program with Australia that would allow them to export beef from companies that employ their own inspectors?

Dr. RAYMOND. At this time, Senator Kohl, there are no Australian establishments certified to export to the United States that are using their meat safety enhancement program.

Senator KOHL. So there is really nothing to that consideration of a trial program to allow them to export meat?

Dr. RAYMOND. They have had one plant that has expressed interest, and at this point, that plant has not been certified for export to the United States.

Senator KOHL. Thank you.

Mr. Chairman.

Senator BENNETT. Thank you very much.

GRAZING LAND CONSERVATION INITIATIVE

Mr. Rey, let us talk about invasive species. They affect forage quality and range land health and wildlife and watershed function and all of those things.

And in fiscal 2006, we provided \$4.1 million to control and manage invasive species through the Grazing Land Conservation Initiative. And these funds were leveraged with private matching, and the administration eliminated funding for Grazing Land Conservation Initiative.

I have a series of questions on this, but just talk about that generally and let us see what your thinking is with respect to this problem.

Mr. REY. Our thinking generally is that we are trying to consolidate and better organize a variety of the conservation programs. The Grazing Land Conservation Initiative is one that fulfills functions that are already being fulfilled under Conservation Technical Assistance and under the Environmental Quality Incentive Program (EQIP).

Much of the work that would have been done was being done under the Grazing Land Conservation Initiative. In our 2007 budget that work will be done under the other two programs, and will include work on invasive species.

We are also investing \$2 million in our 2007 budget request in the cooperative conservation partnership initiatives to deal specifi-

cally with invasive species, and that issue, invasives, will be one of the top priorities in that area and in the EQIP area as well.

Senator BENNETT. Have you had any response or comment from the various stakeholders with the elimination of the funding for GLCI?

Mr. REY. Not so far. I expect as the budget process unfolds and as we talk about that, we will hear from them. Particularly where GLCI earmarks were directed toward specific States and locales, we are going to have to lift a burden of proof to demonstrate that the work will still be done if those earmarks are eliminated.

AIR AND WATER QUALITY ISSUES

Senator BENNETT. Okay. Let us see, Mr. Rey, Conservation Technical Assistance. Senator Kohl and I made this a priority last year. We provided \$12 million, a major increase in light of the budget that we faced last year. There is no similar request for the 2007 budget. Why did the budget request not ask for funding to continue the progress that we started last year?

Mr. REY. Well, the funding request for Conservation Technical Assistance is a total of \$634.3 million, which is a fairly significant budget line item.

Senator BENNETT. No. I am sorry. I am talking about specific money to meet water quality and air quality requirements. I apologize. I didn't pose the question properly.

Mr. REY. Sorry. We have established as a priority for the EQIP program and for the General Conservation Title programs at large to work on air and water quality issues, and we are making substantial progress in those areas. So I think what you are going to see in the mix of program priorities from both EQIP and Conservation Technical Assistance is a substantial amount of work directed toward water quality and air quality, particularly in addressing the air and water quality in packs of confined animal feeding operations.

Senator BENNETT. So you are saying that the amount we very specifically focused on this will be taken care of in the overall, and we don't need to worry about it?

Mr. REY. Correct. In 2006, we spent the amount that you earmarked for air and water quality, but we also spent a substantially greater amount of that as part of the overall EQIP and Conservation Technical Assistance budgets to deal with air and water quality issues.

Senator BENNETT. So you are telling us the emphasis is still there?

Mr. REY. Correct.

Senator BENNETT. All right. I am sure we will watch that and appreciate that.

I have some additional questions, but I think we will submit those for the record.

Okay. Senator Kohl.

FARM SUBSIDIES

Senator KOHL. Thank you, Mr. Chairman.

I would like to address this to Dr. Penn and Dr. Collins. There was an article in the Wall Street Journal recently about the future

of farm subsidies. The article discussed how subsidies can promote overproduction and lead to other problems, including issues with the World Trade Organization.

It also noted that American citizens, both rural and urban, are becoming concerned about the way traditional farm programs affect farmers in poor African countries and elsewhere, as well as the effect they have on our environment here.

These issues, as you know better than I, are very complex. There are several different ways to estimate this, but I understand that in the past 3 years, farm payments averaged approximately 25 percent of net farm income, which is more generous than some countries and less generous than others.

This is an issue that could consume an entire hearing all by itself, but while we have you here, I am interested in your views. Can you talk about this shift in public opinion? Can you talk about the WTO?

Can you talk about traditional farm programs, if they were to decrease or to be eliminated? What thoughts do you have on the best way to protect not only our farmers, but our rural America?

For after all, all this money that the farmers get is spent in rural America in ways that keep rural America alive. So where do you see this whole issue going in terms of its impact on our rural economy?

WTO

Mr. PENN. Senator Kohl, let me begin by discussing the WTO aspects of the question. As you indicated, it is a very broad question and one that we could spend a lot of time discussing.

But let me say before I turn to Dr. Collins that in recent times, there has been a much greater consideration given to the impact of our domestic farm programs on our trading partners. And I think that this has been around since the Uruguay round agricultural agreement was concluded in the mid 1990s.

This was the first multilateral or international agreement to include food and agriculture in a very substantive way. So we have been much more cognizant of this connection between the trade impacts and the domestic farm program impacts since that time.

Now this really came to a head quite recently when some of our programs were challenged in the WTO. Brazil and some other countries launched the so-called "cotton case" in which they singled out cotton and other various programs and challenged those for the very reasons that you indicate. They said that the programs were stimulating additional production here at home. We then exported that production into the world market. That extra production had a price-depressing effect.

Now we certainly think that that effect is greatly overstated, but nonetheless, Brazil prevailed in that WTO challenge, and they prevailed on the appeal. So that has now caused us to take into account the effects of our programs on others, or the extent of the trade distortions that our programs may have.

So as we approach the 2007 Farm Bill, as we approach what we hope to be the successful conclusion of the Doha trade negotiations, we are now much more mindful of the form in which we provide support to our producers than perhaps we have been in the past.

The WTO has established various color boxes. The amber box, which is the most trade distorting form of domestic support; the blue box, which is less trade distorting; and the green box, which is non- or minimally trade distorting.

So we are having to give more and more thought about switching our support for our farmers from amber box to blue box to green box, so that we can continue to provide support for domestic agriculture, but do it in a way that doesn't negatively or adversely affect our trading partners around the world.

That is sort of the trade aspects. But as you know, Dr. Collins has spent most of his career studying all of the other aspects of your question. So I will turn to him.

Mr. COLLINS. That is very kind of a senior author of a multiple edition agricultural policy book to hand that off to me.

PUBLIC OPINION ON AGRICULTURAL POLICY

Mr. COLLINS. Mr. Kohl, your question deserves a comprehensive and thoughtful answer, and Dr. Penn mentioned the trade implications of our programs and how that can affect future agricultural policy.

One of the things you asked about was how public opinion has shifted, which is part of what the Wall Street Journal article was about. I guess my feeling is that the great majority of Americans really don't know much about agricultural policy, and I think they are very positive about agriculture and about farmers. So I don't sense a great shift among most people, urban residents, for example.

However, within agriculture in rural areas, I think there is a shift, and I think part of it reflects a broader and deeper understanding about farm programs. Some of that has come because of the international scrutiny of our programs—WTO challenges, the loss of the cotton case, for example, the understanding that programs are "amber box" in many cases and have resource allocation effects.

Also there has been a lot of discussion about the effects of farm programs on land values, the equity of the payments across commodities, across regions, and across size of producers. Much data has been presented in recent years about those things. And so, I think there is a bigger and deeper understanding about some of the consequences of our current structure of programs than perhaps we have had in the past, and that is starting to show in the public discourse.

As you probably saw yesterday, the department released 41 short papers, which are the summaries of what the department heard at the 52 Farm Bill forums that were held by the Secretary and people at this table. If you look through some of the comments, you will find that people are questioning.

Well, you mentioned 25 percent of net farm income or net cash income coming from Government payments. You know, this year, it is going to be about 30 percent in 2006. That is roughly \$20 billion the last couple of years.

People are saying, well, \$20 billion a year is a lot of money and are there other ways that that money can be used to continue to promote rural well-being, address some of the problems with the

current programs, and also deal with some of the new emerging issues that people want dealt with.

You already talked about promoting niche opportunities for small producers in rural America. Maybe more could be done there. People want to do more in energy. We had an energy title in the last Farm Bill. Very little money went into that energy title. Maybe money is not the answer for energy, but that is something to think about.

There is the question of specialty crops. I have been struck by the fact that 20 years ago, the cash receipts that farmers earned from specialty crops was half of what was earned from program crops. And this year, it is going to be equal to what is earned from program crops. So we have had this incredible growth in specialty crops in the United States, and specialty crops are not really party to that \$20 billion.

So I think there is a discussion going on within agriculture in rural areas about farm programs and about what is the best way to deal with the problems that farmers face, which certainly are there, but also deal with the needs of rural areas.

And of course, you asked, how we thought that might come out, and I guess my answer to that would be, well, we will wait and see how that comes out in the 2007 Farm Bill. But that is the landscape behind the debate that is emerging, and I do think that there has been some shifting of opinion within rural areas and agriculture.

You even see that in some of the reports that some of the farm groups are putting out. The National Corn Growers and the American Farm Bureau Federation have put out some very thoughtful pieces about where we should go in the long run with our agricultural policy and it is a little bit different than you might have heard 10 or 15 years ago.

Senator KOHL. Do you anticipate that there will be some very detailed discussion of this whole issue surrounding the Farm Bill in 2007 and maybe some significant changes?

Mr. COLLINS. I guarantee you there will be detailed discussion. As to the significant changes, my forecasting ability there has failed me in the past. So I am not sure. But there is always that potential.

Senator KOHL. But isn't it true in the sense that if we spend the money in different ways, the direct payments to farmers, as they go down, will have a direct impact on farming? I mean, if we are spending \$20 billion a year—

Mr. COLLINS. Right. Right.

Senator KOHL. And we take that money and spend a portion of it or a large amount of it in other ways to impact in a positive way rural America, but the money doesn't go through the farmer, what will happen to the farmer?

Mr. COLLINS. Well, it may or may not. Look at the situation now. The \$20 billion, most of that goes to a small set of farmers.

Senator KOHL. That is true.

Mr. COLLINS. Most of that goes to wheat, corn, cotton, rice, soybeans, and so on. It is not going to another big part of agriculture. So you could already argue that there is some relative disadvantage in place right now with the current structure.

So if you start to reapportion things, change things around, it is true that some farmers would stand to lose. Other farmers would stand to gain.

And there also may be alternative ways that those producers who would lose their direct payments or their counter-cyclical payments or their marketing loan benefits could pick up those benefits through other programs—other programs that exist now, such as expanded conservation programs, or other programs yet to be designed in the 2007 Farm Bill.

So I don't think you can conclude that automatically every producer is going to lose. They are not. There is going to be a distribution of losers and of gainers, and always part of the dilemma in changing farm policy is how to deal with anybody that is perceived as a loser.

We have figured out how to do that in some cases. We had a peanut buyout program. We had a tobacco buyout program. Who knows? Maybe there will be new ways that we can think about how we can transition from one structure to another structure and minimize the losers.

Senator KOHL. Thank you very much, gentlemen.

Mr. Chairman.

ADDITIONAL SUBMITTED STATEMENTS

Senator BENNETT. The subcommittee has received statements from Rural Development and Research, Education and Economics which will be placed in the record.

[The statements follow:]

PREPARED STATEMENT OF THOMAS C. DORR, UNDER SECRETARY, RURAL DEVELOPMENT

Mr. Chairman, members of the Subcommittee, I appreciate this opportunity to appear before you today to present the President's fiscal year 2007 Budget request for USDA Rural Development.

With me today are Jim Andrew, Administrator of our Rural Utilities Programs; Russell Davis, Administrator of our Rural Housing and Community Facilities Programs, and Jack Gleason, Acting Administrator of our Rural Business and Cooperative Programs.

On behalf of all of us, let me say that it is indeed a privilege for us to be here today representing over 6,800 dedicated men and women of USDA Rural Development. They are spread across every State and are your neighbors. They do an outstanding job.

And if I may, I would like to take just a moment to pay a special tribute to the extraordinary contributions so many of them made this past year under very difficult circumstances in the wake of the 2005 hurricanes. This is not the place for an extended discussion, but I do want to say that amidst all the controversies, a great deal of good work by good people has gone unremarked.

I have visited the Gulf Coast repeatedly since the hurricanes, and I have been inspired by the resiliency, commitment, and energy of hundreds of USDA Rural Development people in the affected areas. Some of them, in fact, had lost their own homes—but in those first days after landfall, all of them were working around the clock helping to provide emergency shelter, financial support, and transitional housing to evacuees. And they are hard at work now helping with the rebuilding of homes and businesses across the region.

We are a relatively small agency and, in the context of the hurricanes, a relatively small part of a much larger story. But this was truly a case where we punched above our weight. I am tremendously proud of the work our people did, and not just those in Louisiana, Mississippi, Alabama, and Texas, but also their colleagues around the country.

VISION

Mr. Chairman, I am both honored and humbled by the opportunity President Bush has given me to serve as Under Secretary for Rural Development. I am committed to the future of rural America. My home is outside Marcus, Iowa, a metropolis of about 1,100. I am a farmer. I treasure the rural way of life and understand the pressures faced by rural communities in our rapidly urbanizing society. But I also believe that the traditions and values of rural America remain a vital part of our national heritage.

I believe also that the future of rural America is bright. Certainly there are challenges; there always are. But rural communities enjoy many assets as well: the quality of life, a clean environment, peace and quiet, livable small towns, a lower cost of living, strong communities, and traditional values. These are communities worth preserving, and they have a future well worth building.

The mission of USDA Rural Development is to provide leadership, infrastructure, venture capital, and technical support to enable rural communities to prosper in a dynamic new environment defined by globalization, the Internet revolution, and the rise of new technologies, products, and markets.

In this effort, we begin with the recognition that rural America is extraordinarily diverse. It includes some of the fastest growing communities in the Nation, areas that are suffering from long-term economic and population decline, and everything in between. One size does not fit all.

We understand as well that sustainable development must be market driven, not program dependent. And finally, we recognize that our role is to encourage and support local initiatives, both public and private. We know that our success depends on our ability to attract both private and other public partners; our success, indeed, is measured primarily by their success.

I believe in this mission. And I believe firmly that rural America today is more competitive . . . more attractive as a place to live, work, and do business . . . and better positioned for self-sustaining growth . . . than has been the case for many years.

FISCAL YEAR 2007 BUDGET REQUEST

The President's fiscal year 2007 Budget proposes \$2.1 billion in budget authority and a program level of \$13.7 billion for rural housing, community facilities, infrastructure, and economic development. Under the USDA Rural Development programs, each Federal dollar supports 6.5 dollars of investments in rural America. We are also able to leverage our funds with those of the private sector, as well as create partnerships with State, local, and tribal governments, community development organizations, and for-profit and not-for-profit companies.

In a challenging budget environment, this is an important means of maximizing the return on scarce budget dollars. It should be emphasized, however, that this emphasis on leveraging is a sound policy choice quite independent of current budget constraints. Indeed, the evolution of program emphasis within USDA Rural Development has for some years been away from grants and direct loans and toward a greater reliance on loan guarantees. This has allowed us to serve more individuals, businesses, and communities for any given level of budget authority. It also reinforces our strategic objective of fostering sustainable development based, on market orientation and private investment.

I would like to touch briefly on some highlights of our fiscal year 2007 request.

RURAL UTILITIES PROGRAMS

USDA Rural Development provides financing for electric, telecommunications, and water and wastewater services that enhance the quality of life and provide the foundation for economic development in rural areas. For fiscal year 2007, the President's Budget proposes \$553 million in budget authority to support a program level of \$6.3 billion for rural utilities programs.

Of this total, \$3.8 billion is for the rural electric program. With the support of the President and Congress over the last several years, we have eliminated the backlog in electric program applications and believe that the funds proposed for fiscal year 2007 will be sufficient to meet the demand.

In addition, the President's budget proposes \$1.414 billion in loans and grants for rural water and wastewater projects. To enhance the ability of low-income communities to finance vital water and wastewater improvements, we propose to change the calculation of the "poverty" interest rate for this program from the current fixed 4.5 percent to an adjustable rate set at 60 percent of the market rate. This change is reflected in the higher subsidy rate projected in fiscal year 2007 for Water and

Wastewater Program Direct Loans. We also continue to believe that in the current low interest rate environment, rural communities can afford to finance a higher share of project costs, and we therefore propose to shift the loan-grant ratio to an approximate 75–25 percent ratio.

The President's budget proposes \$690 million in telecommunications loans and the investment of \$356 million in loans to accelerate the deployment of broadband to rural communities. Broadband is fast becoming an essential tool for businesses, both large and small, and we are acutely aware that broadband deployment continues to lag in rural areas. Ensuring broadband access is essential to achieving a dynamic rural economy. The budget request is expected to be sufficient to meet the demand for the next year. This represents a reduction from the nominal fiscal year 2006 program level of \$495 million, but as this Subcommittee knows, we have to date been unable to obligate all the broadband loan funds that Congress has made available to us. The volume of viable applications that either we or the Congress anticipated has simply not materialized.

It is clear, therefore, that the rural broadband deployment model must be improved. This has been a top priority since my confirmation last summer. We are now engaged in a thorough review to identify obstacles to borrower participation. In the meantime, we look forward to working with the Congress, the telecommunications industry, and rural stakeholders to accelerate deployment of this vital technology.

In addition, the President's budget includes \$24.8 million for the Distance Learning and Telemedicine (DLT) Grant Program, which enables rural communities to enhance their educational options and access the resources of big city medical centers via the Internet. This request maintains the fiscal year 2006 program level for DLT Grant Program.

RURAL HOUSING AND COMMUNITY FACILITIES PROGRAMS

Safe, modern, affordable housing is essential to healthy communities. USDA Rural Development works to extend the benefits of homeownership to low- and moderate-income Americans and to historically disadvantaged communities. We finance affordable rental housing and essential repairs for low- and very-low income homeowners. We also assist rural communities in providing quality health care, police and fire services, day care, educational and recreational facilities, and other essential community services.

The fiscal year 2007 budget request for rural housing and community facilities exceeds \$6.27 billion. This includes an increase in funding for both direct and guaranteed homeownership loans, to \$1.2 billion and \$3.56 billion, respectively. We anticipate that this level of funding will provide homeownership opportunities for over 40,000 rural families. In order to meet this goal, we propose raising the guarantee fee from 2 percent to 3 percent. This nominal increase will provide an additional \$2.86 billion in single family guaranteed loans.

For multi-family housing, the budget proposes shifting funding from direct to guaranteed lending in order to increase our leveraging and serve more residents at a lower cost. A total of \$198 million—double the fiscal year 2006 program level for guaranteed lending—is requested for this purpose.

We also propose \$486 million for rental assistance, a figure which reflects a shift from 4 to 2 year contracts. We believe it is unnecessary to renew contracts for 4 years especially while revitalization is underway, and the Administration remains committed to renewing contracts as needed. However, 2 years is the minimum contract term the program should have to operate efficiently from year to year.

In addition, the budget proposes \$74 million to fund our multi-family housing revitalization initiative. As this Subcommittee knows, the multi-family housing portfolio faces longstanding issues of deferred maintenance. This is compounded by the threat of prepayment by the owners of some complexes who may wish to exit the program, leading to the displacement of significant numbers of elderly and low-income tenants. The \$74 million will fund the voucher program to help displaced tenants from USDA financed multifamily housing properties where the owner has chosen to pre-pay the Rural Development loan and withdraw the property from the program. The \$74 million is proposed in the Budget solely for funding the anticipated need for the voucher program. Funding debt restructuring without the proper legislative authorizations in place would be premature. However, in order to allow for balancing of needs in anticipation of the new authorization passing, the appropriations language does allow for the funds to be used for this purpose if debt restructuring authorization language is enacted. While modest in budgetary terms, this is a very significant investment in the long-term stabilization and revitalization of the rural rental housing portfolio.

Finally, the budget proposes to increase the program levels for the Farm Labor and Self Help Housing Programs to \$55 million and \$38 million, respectively. It continues Community Facilities Loans and Grants at their fiscal year 2006 levels.

RURAL BUSINESS AND COOPERATIVE PROGRAMS

The third leg of the Rural Development stool is business development and job creation. The future of rural communities depends on their ability to attract and regain young families. A diversified, growing rural business sector is essential to offering opportunity to young adults and a future to growing families.

To support these goals, the President's budget for fiscal year 2007 requests \$103 million in budget authority to support a program level of \$1.138 billion for our Rural Business and Cooperative Programs.

Our request for fiscal year 2007 is—as it was last year—consistent with the Strengthening American Communities Initiative, which called for a consolidation of several economic development programs within the Department of Commerce. We are confident of our ability to partner with the Department of Commerce to ensure that rural America participates fully in this broader funding pool.

Of the programs remaining in USDA Rural Development, the Business and Industry Guaranteed Loan Program (B&I) accounts for approximately 42 percent of proposed budget authority and 87 percent of total program level for fiscal year 2007. We will also continue to provide technical assistance, development, and research support for rural cooperatives, targeted investment in alternative energy and energy conservation, and support for intermediary lending institutions through a variety of smaller programs. We estimate that total business program investment in fiscal year 2007 will create or save over 56,000 jobs.

CLOSING

In closing, Mr. Chairman, I want to emphasize that the bottom line for USDA Rural Development is not budget numbers; it is water lines laid, families able to afford a new home, new businesses and jobs created or saved, and rural communities strengthened by what we do. It is a privilege to work with the members of this Subcommittee to advance these objectives despite the stringent budget environment we face today. This concludes my formal statement and I will be glad to answer any questions you may have.

PREPARED STATEMENT OF JACKIE J. GLEASON, ACTING ADMINISTRATOR, RURAL BUSINESS-COOPERATIVE SERVICE

Mr. Chairman and members of the Subcommittee, I am pleased to present the Administration's fiscal year 2007 Budget for the Rural Development's rural business and cooperative programs.

Mr. Chairman, the programs and services of Rural Development, in partnership with other public and private sector businesses, continue to improve the economic climate of rural areas through the creation or preservation of sustainable business opportunities and jobs. Rural Development continues to invest in rural America, especially in the under-served rural areas and populations. Rural Development programs help close the gap in opportunity for these under-served rural areas and populations, moving them toward improved economic growth by providing capital, technology and technical assistance. The \$103 million requested in budget authority for Rural Business-Cooperative Service programs will support \$1.138 billion in direct and guaranteed loans and grants and will assist in creating or saving over 56,000 jobs and providing financial assistance to more than 1,200 small businesses.

The cooperative form of organizational governance continues to be a cornerstone of business development in our rural communities, whether in the traditional form that brings day care services to a rural community or today's new generation ethanol cooperatives that lessen our dependence on foreign oil. From the large agricultural marketing cooperative that brings additional value to its members products, to the small rural telephone cooperative that brings broadband technology to its community's businesses and residents, to the elder care cooperative that brings desperately needed services to our "greatest generation," cooperative organizations provide our rural residents with new and exciting job opportunities, enhanced educational and health care opportunities, and products and services that enable viable rural communities to compete with their urban and suburban counterparts.

Rural Development's mission is "to increase economic opportunity and improve the quality of life for all Rural Americans." Rural Development's business and cooperative programs successfully carry out this mission by providing an array of edu-

cational, technical assistance, research, and loan and grant programs to rural Americans.

BUSINESS AND INDUSTRY GUARANTEED LOAN PROGRAM

For the Business and Industry (B&I) Program, the fiscal year 2007 budget includes

\$43.16 million in budget authority to support \$990 million in guaranteed loans. We estimate that the funding requested for fiscal year 2007 will create or save over 23,667 jobs and provide financial assistance to approximately 554 businesses. The B&I program allows lenders to better meet the needs of rural businesses. Through the lender's reduced exposure on guaranteed loans, they are able to meet the needs of more businesses at rates and terms the businesses can afford. B&I guaranteed loans may also be used by individual farmers to purchase cooperative stock in a start-up or existing cooperative established for value-added processing.

I would like to illustrate how this program partners with a lender. Desert View Regional Medical Center Holdings, LLC was approved for a Business and Industry Guaranteed Loan in the amount of \$17.5 million. The funds will be used to construct a 25 bed acute-care surgical hospital in Pahrump, NV, which currently does not have hospital services. The facility will include 22 medical beds, 3 birthing suites, and emergency rooms with 8 treatment bays and trauma unit. The surgery department will have 2 operating rooms; the imaging department will include radiology, fluoroscopy, mammography, ultra sound, C/T, and mobile MRI; and there will be a clinical laboratory, cardiopulmonary, physical, and occupational therapies. At present, residents of the Pahrump area must travel approximately 60 miles to Las Vegas for acute primary hospital care. Approximately \$12 million in equity and other funds will be contributed to the project. In addition to benefiting the community with a critical access hospital, the new hospital will bring 140 new jobs to the area, which includes 40 doctors and nurses.

I would also like to share with you another example of how this program partnering with a lender, Comerica Bank, has supported alternative energy development in rural America. The Snowflake White Mountain Power, LLC, was approved for a B&I guaranteed loan of \$6 million in addition to a Section 9006, Renewable Energy System Guaranteed Loan of \$10 million to build a 20 megawatt biomass electrical generating plant 17 miles southwest of Snowflake, Arizona. The raw materials for generation are burnt trees from the Abitibi Paper Mill which is located adjacent to the proposed plant. About six jobs will be created directly and 40 jobs from subcontractors. This is a good example of how two programs within Rural Development were jointly utilized to purchase the guaranteed loan assistance needed for the project to be realized.

VALUE-ADDED PRODUCER GRANT PROGRAM

For fiscal year 2007, the budget requests \$20.295 million for the value-added producer grant program, the same as in the previous year. The Value-Added Producer Grant (VAPG) program encourages independent agricultural commodity producers to further refine or enhance their products, thereby increasing their value to end users and increasing the returns to producers. Grants may be used for planning purposes such as conducting feasibility analyses or developing business plans, or for working capital accounts to pay salaries, utilities and other operating costs. Program revisions were made in fiscal year 2006 that will increase the number of eligible applicants competing for this critically important funding, and in support of the President's e-Gov initiative, administrative processes were refined to enable producers to complete an electronic application template and submit their completed applications through Grants.gov.

The successes of the Value-Added program are evident throughout the country. Alternative crops are two vital words for the survival of agriculture in today's world. For example, Paulk Vineyards of Wray, Georgia, is a family-based grower of southern grapes, commonly known as muscadines. While this alternative crop is used in wines, jellies, jams, and juice, studies have shown that the product and its by-products have tremendous health benefits. Paulk Vineyards received a \$126,350 VAPG to develop processes that would turn muscadine seeds into anti-oxidant powders and a healthy, good-tasting juice. Muscadine seeds are higher in reseratol antioxidant, ellagic acid, and total antioxidants than any other fruit analyzed according to several researchers, including the University of Georgia. When dried, crushed, and encapsulated, this value-added product can be sold on the market to biomedical companies, health food stores, natural food stores, and the public. As a result of being able to develop these new processes with the value-added grant, the Paulk family

is building a new processing facility for its extract and powder lines which will substantially increase employment in this rural area.

Since the passage of the 2002 Farm Bill, funding for the Agricultural Marketing Resource Center (AgMRC) has been set at 5 percent of the funding made available to the other value-added programs. Therefore, approximately \$1.015 million of the \$20.295 million budget request will fund the AgMRC's activities. AgMRC is an electronically based information center that creates processes, analyzes, and presents information on value-added agriculture. The center is housed at Iowa State University; however, it has partners at Kansas State University and the University of California–Davis. The center provides producers, processors, and other interested parties with critical information necessary to build successful value-added businesses.

RURAL COOPERATIVE DEVELOPMENT GRANT PROGRAM

For fiscal year 2007, the budget requests \$4.95 million for the Rural Cooperative Development Grant Program. The Rural Cooperative Development Grant program provides funds to establish and operate centers for developing new cooperatives and improving the operations of existing cooperatives with the primary goal of improving the economic conditions of rural areas. This program complements our national and State office technical assistance efforts by increasing outreach and developing feasibility studies and business plans for new cooperatives, and assisting existing cooperatives in meeting the demands of today's ever-changing global economy.

For example, when Cooperative Development Services, Inc. (CDS) started fielding inquiries to start new food cooperatives, they found this to be very unique. Not since the 1970s had a major number of new food cooperatives been developed in the United States. While CDS' consultants work with over 100 food cooperatives in rural Wisconsin, Minnesota, and Iowa, assisting with all phases of leadership development; store growth, and expansion; and operations improvement, it needed additional financing for the technical assistance necessary to meet the growing demands of start-up cooperatives. With a Rural Cooperative Development Grant from USDA's Rural Development, CDS was able to advise and assist two steering committees as they moved through the steps of cooperative development, including market research, feasibility analysis, business planning, equity formation, and, in one case, the hiring of the cooperative's manager. The results have been an overwhelming success. Harvest Market Co-op, located in the Village of Barneveld, opened a grocery store cooperative that has 348 members. The store is thriving with projections calling for the store to reach breakeven profitability this year. A second cooperative, Just Foods Co-op, has already grown in membership to over 1,100. These start-ups served as the catalyst for CDS to create a national model to guide the development of food cooperatives across the country. Implemented in June 2005, the model has been adopted by other cooperative associations and is expected to grow the number of food cooperatives throughout the country in the next 10 years from 300 to 500.

GRANTS TO ASSIST MINORITY PRODUCERS

For fiscal year 2007, the budget requests \$1.485 million for funding for cooperatives or associations of cooperatives whose primary focus is to provide assistance to small, minority producers whose governing board and/or membership comprise at least 75 percent minority members. Grants may be used for developing business plans, conducting feasibility studies, or developing marketing plans for farmers, ranchers, loggers, agricultural harvesters and fishermen whose gross annual sales do not exceed \$250,000.

COOPERATIVE RESEARCH AGREEMENTS

For fiscal year 2007, the budget requests \$495,000 for cooperative research agreements to encourage the study of those issues essential to the development and sustainability of cooperatives. Because so much of rural America's business endeavors are cooperatively formed, their continued success is critical for the continued sustainability of the Nation's rural communities. Through cooperative research agreements, Rural Development can continue to develop and maintain the information base vital for innovative, creative, and prudent decision making.

INTERMEDIARY RELENDING PROGRAM

The fiscal year 2007 budget also includes \$14.951 million in budget authority to support \$33.925 million in loans under the Intermediary Relending Program (IRP). We estimate that the proposed level of funding will create or save approximately 25,952 jobs over the 30-year period of this year's loans. Participation by other private credit funding sources is encouraged in the IRP program, since this program

requires the intermediary to provide, at a minimum, 25 percent in matching funds. To illustrate the benefits IRP provides to rural America, I would like to share with you a success story from rural Iowa.

A \$625,000 IRP loan was made to the Corn Belt Power Cooperative in Humboldt, Iowa, for the purpose of expanding their existing Revolving Loan Fund. Together with private sector matching funds, the loan fund was increased to approximately \$2,250,000. Based on historical performance, Corn Belt Power estimates that approximately 95 jobs will be created in rural areas with this new injection of funding.

RURAL BUSINESS ENTERPRISE GRANT PROGRAM/RURAL BUSINESS OPPORTUNITY GRANT PROGRAM

The Rural Business Enterprise Grant (RBE) and the Rural Business Opportunity Grant (RBO) programs are being proposed to be consolidated into the Federal Economic and Community Development programs as part of the President's initiatives to help strengthen America's transitioning and most needy communities. These grant programs, along with others will be transformed into a new, two-part program: (1) the Strengthening America's Communities Grant Program, a unified economic and community development grant program, and (2) the Economic Development Challenge Fund, a bonus program for communities.

RURAL ECONOMIC DEVELOPMENT LOAN AND GRANT PROGRAMS

The fiscal year 2007 budget includes \$7.568 million in budget authority to support \$34.652 million in Rural Economic Development Loans (REDL) and \$10 million in Rural Economic Development Grants (REDG). This program represents a unique partnership, since it directly involves the Rural Development electric and telecommunications borrowers in community and economic development projects. It provides zero-interest loans and grants to intermediaries, who invest the funds locally. The return on our equity from rural America is strong.

The following is an example of how one REDL will benefit two States by allowing a Wisconsin firm to expand its capacity. A loan of \$740,000 was provided to the Northwest Telephone Cooperative Association on behalf of the Laurens Industrial Foundation for Link Snacks, Inc. Laurens, Iowa has a population under 1,500. The loan will be used to assist with the purchase of a warehouse facility and equipment to accommodate Link Snacks, Inc., of Minong, Wisconsin. Link Snacks, Inc. will use the facility as freezer storage and international distribution center for a snack and meat production company. In addition, some meat products will be processed at this site. As a result, the loan will increase opportunities, help fill vacant space, and create up to 150 new jobs in an area suffering from population decline.

RENEWABLE ENERGY GRANTS/LOAN GUARANTEE PROGRAM

The Renewable Energy Systems and Energy Efficiency Improvements Program were authorized by the Farm Security and Rural Investment Act of 2002. The program authorizes loans, loan guarantees, and grants to farmers, ranchers, and rural small businesses to (1) purchase renewable energy systems, and (2) make energy efficiency improvements. The fiscal year 2007 budget proposes a \$7.92 million grant program and a budget authority of \$2.243 million to support \$34.560 million guaranteed loan program. The program supports the President's energy policy goals by helping to develop renewable energy supplies that are environmentally friendly. In addition, the program contributes to local rural economies through the creation of jobs and provides new income sources to rural small businesses, farmers, and ranchers. Finally, the program helps to reduce the costs of doing business for farmers, ranchers, and rural small businesses by encouraging the use of energy efficient physical plant systems. We anticipate 37,440 households will be served, 388 million-kilowatt hours of energy generated while reducing greenhouse gasses by 0.1 million metric tons. These loans and grants will reduce oil imports by 73 million barrels in the year funded.

Reducing the costs of operating a business is significant in terms of job retention. In June, 2005, an energy efficiency improvement grant of \$98,873 was awarded to the New Holland Brewing Company, a Limited Liability Corporation in Holland, Michigan. Using the grant, as well as leveraged funds of almost \$400,000, the company installed a low pressure boiling storage system and a new lighting fixture with motion sensors. Thus, the lights are only on when a person is present to use them. It is estimated that the energy efficiency improvements are saving the business between 40 percent and 50 percent of their normal energy costs.

BIOMASS RESEARCH AND DEVELOPMENT GRANTS

The Biomass Research and Development Grant program, authorized under section 9008 of the 2002 Farm Bill, is jointly administered by USDA and the Department of Energy. During fiscal year 2006, Rural Development will assume USDA's part of the administration of this program from the Natural Resources Conservation Service. The fiscal year 2007 budget includes funding to provide up to \$12 million in grants to organizations involved in researching biomass energy alternatives and developing bio-based energy products.

Mr. Chairman, and members of the Subcommittee, this concludes my testimony for the Rural Development fiscal year 2007 budget for rural business-cooperative programs. I look forward to working with you and other Committee members to administer our programs. I will be happy to answer any questions the Committee might have.

PREPARED STATEMENT OF RUSSELL T. DAVIS, ADMINISTRATOR, RURAL HOUSING SERVICE

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to present the fiscal year 2007 President's Budget for the USDA Rural Development rural housing and community facilities programs.

As an integral part of Rural Development, the rural housing programs assist rural communities with a wide array of single and multi-family housing options to residents of rural communities. We also help to fund medical facilities, fire and police stations, childcare centers, and other essential community facilities.

The proposed budget for rural housing and community facilities programs in fiscal year 2007 supports a program level of approximately \$6.27 billion in loans, loan guarantees, grants, and technical assistance. It also maintains the Administration's strong commitment to economic growth, opportunity, and homeownership for rural Americans. We believe that our efforts, combined with the best of both the non-profit and private sectors, will ensure that this budget makes a tremendous difference in rural communities. The fiscal year 2007 Budget also includes a major initiative to revitalize the rural rental housing programs.

Let me share with you how we plan to continue improving the lives of rural residents under the President's fiscal year 2007 Budget proposal for our rural housing programs.

PROGRAM HIGHLIGHTS

I am pleased to provide you with an update on several highlights from our major programs, as well as key initiatives being undertaken.

In fiscal year 2005, we were instrumental in the Federal response efforts to hurricanes Katrina and Rita. Immediately following the hurricanes we had our people who were already living in the gulf States coordinating relief efforts and assisting evacuees with their housing needs. Our Multi-Family Housing program was able to place about 10,000 individuals or nearly 4,000 hurricane evacuee families nationwide and was able to offer approximately \$17 million in emergency Rental Assistance. In our Single Family Housing program, we provided immediate housing payment moratoriums for over 18,000 of our affected borrowers, suspended foreclosure actions, and opened up our single family housing inventory properties nationwide in order to place some evacuees. We are continuing to provide relief and assistance through aggressive loan servicing, and new loans and grants in the affected areas.

In December 2005, the Department of Defense Appropriations Act for 2006 provided some relief for areas affected by the hurricanes of 2005. The legislation provides approximately \$175.593 million in program level for section 502 direct single family loans, \$1.293 billion in program level for section 502 guaranteed single family loans, \$34.188 million in program level for section 504 home repair loans, and \$20 million for section 504 home repair grants. In addition to funding, Congress gave Rural Development flexibility within their current statutes and regulations to meet the needs of those affected by the hurricanes.

We will soon be announcing details for the rural housing voucher demonstration program and expanded revitalization demonstration program that were authorized in the 2006 Appropriations Act. We expect to have these programs fully underway within the next few months.

MULTI-FAMILY HOUSING PROGRAMS

The Multi-Family Housing (MFH) budget preserves Rural Development's commitment to maintaining the affordable housing for the many rural Americans who rent

their homes. Our existing portfolio provides decent, safe, sanitary, and affordable residences for about 470,000 tenant households.

The total program level request is \$825.4 million. Four hundred and \$86 million will be used for rental assistance (RA) for contract renewals, farm labor housing, and preservation. These funds will renew more than 46,000 2-year RA contracts.

The fiscal year 2007 budget also requests funds for a program level of \$41.6 million in loans and \$13.9 million in grants for the Section 514/516 Farm Labor Housing program, and program level of \$1.5 million in loans for credit sales, and \$9.9 million for housing preservation grants.

Multi-Family Housing Revitalization

The fiscal year 2007 budget extends the Administration's proposal to revitalize USDA's multi-family housing projects by providing \$74.2 million for rural housing vouchers for tenants of projects that have withdrawn from the program. Upon enactment of legislation the Administration has already submitted to Congress, these funds could also be used to provide incentives for project sponsors to stay in the program and make essential repairs and rehabilitations.

We anticipate our revitalization efforts will span the next several years and have initiated a demonstration program using existing authority during fiscal year 2005 to test the viability of the revitalization concepts. The demonstration validated some of the basic revitalization concepts and helped us identify an efficient process for implementing the fiscal year 2006 demonstration program and preparing for the full scale implementation of the revitalization initiative. The 2005 demonstration effort will revitalize 22 rental properties through 12 transactions in the States of Missouri, Wisconsin, Louisiana, Arkansas, and Georgia. Through these efforts, 559 tenant families will continue to live in affordable rental housing. Eight of the transactions have closed and we will complete the remaining shortly.

Section 538 Guaranteed Rural Rental Housing Program

The fiscal year 2007 budget request will fund \$198 million in section 538 guaranteed loans, funds that may be used for new construction and repairing 515 properties. The section 538 guaranteed program continues to experience ever-increasing demand and brisk growth, and is rapidly becoming recognized within the multi-family housing finance, development, and construction industry as a viable conduit to facilitate the financing of housing projects.

In fiscal year 2005, we distributed more than \$97 million in guarantees to fund housing projects that attracted over \$338 million in other sources of funds. The risk exposure to the government continues to be very low, as loan guarantees to total development costs are well under 30 percent. We also have a delinquency rate of zero. Over 90 percent of the applications were awarded Low-Income Housing Tax Credits from the various State governments where the projects were located. This type of leveraging helps ensure that properties are affordable for low-income families.

Since inception of the program, the section 538 guaranteed program has closed approximately 100 guarantees totaling over \$185 million. These closed guarantees will provide over 4,500 rural rental units at an average rent per unit of approximately \$500 per month. In addition, the program has more than 100 applications in the works.

The rural housing program recently published a final rule on January 19, 2005, to address program concerns from our secondary market partners and to make the program easier to use and understand. The fiscal year 2007 proposed budget of \$198 million will enable Rural Development to fund a significant number of additional guaranteed loan requests.

SINGLE FAMILY HOUSING PROGRAMS

The Single Family Housing (SFH) programs provide several opportunities for rural Americans with very low- to moderate-incomes to purchase homes. Of the \$4.80 billion in program level requested for the SFH programs in fiscal year 2007, \$3.56 billion will be available as loan guarantees of private sector loans, including about \$99 million for refinancing more affordable loans for rural families. Also, with \$1.237 billion available for direct loans, an increase of 10 percent over the 2006 enacted level, our commitment to serving those most in need in rural areas remains strong. This level of funding will provide homeownership opportunities for approximately 40,760 rural families.

Effective outreach and a quality guarantee product, coupled with low interest rates, have increased demand for the section 502 guaranteed program. Currently, approximately 2,000 lenders participate in the guaranteed SFH program. The competitive low-interest rate environment has enabled the rural housing program to

serve low-income families, who would typically receive a section 502 direct loan, with a guaranteed loan instead. To help decrease the Federal cost of this program, we are requesting the authority to charge up to a 3 percent guarantee fee for purchase loans. Without the proposed fee change the budget authority requested will support only \$601 million in loans compared to \$3.56 billion available if the 3 percent fee were in place. In addition, we are ensuring that this program is not redundant with other Federal guarantee housing loan programs by requiring that the lender certify that the borrower does not qualify for another guarantee that the lender offers and that they would not issue the loan without the guarantee.

Section 523 Mutual and Self-Help Housing

The President's fiscal year 2007 Budget requests \$37.6 million for the mutual and self-help housing technical assistance program, an increase of 12 percent over fiscal year 2006 levels.

The fiscal year 2005 ended with over \$42 million awarded for contracts and 2-year grants. There were 39 "pre-development" grants awarded in fiscal year 2005, including many first-time sponsors, several faith-based groups, and groups in States with no self-help housing programs. Pre-development funds may be used for market analysis, determining feasibility of potential sites and applicants, and as seed money to develop a full-fledged application. Groups in the pre-development phase typically need 6 to 12 months before they are ready to apply for full funding.

The fiscal year 2007 proposed budget also includes approximately \$36.4 million in program level for home repair loan funds and \$29.7 million for grants to assist elderly homeowners. It also includes approximately \$5 million in loan level for each of two site loan programs, \$10 million in loan level for sales of acquired properties, and approximately \$990 thousand for supervisory and technical assistance grants.

COMMUNITY PROGRAMS

The Community Facilities budget request will provide essential community facilities, such as educational facilities, fire, rescue, and public safety facilities, health care facilities, and child care centers in rural areas. The total requested program level of \$521.7 million includes \$297 million for direct loans, \$207.9 million for loan guarantees, and \$16.8 million for grants.

In partnership with local governments, State governments, and Federally-recognized Indian Tribes, the fiscal year 2007 budget will support more than 300 new or improved public safety facilities, 125 new and improved health care facilities, and approximately 90 new and improved educational facilities to serve rural Americans.

In fiscal year 2005, we invested over \$163 million in 155 educational and cultural facilities serving a population totaling over 1.8 million rural residents, over \$136 million in 523 public safety facilities serving a population totaling over 2.4 million rural residents, and over \$426 million in 166 health care facilities serving a population totaling over 2 million rural residents. Funding for these types of facilities totaled \$725 million. The remaining balance was used for other essential community facilities such as: food banks, community centers, early storm warning systems, child care centers, and homeless shelters.

CONCLUSION

Through our budget, and the continued commitment of President Bush, rural Americans will have the tools and opportunities they can put to work to improve both their lives and their communities. We recognize that we cannot do this alone and will continue to identify and work with partners to improve the lives of rural residents.

I would like to thank each of you for your support of the rural housing and community facility programs' efforts. I look forward to working with you in moving the fiscal year 2007 Budget forward, and welcome your guidance as we continue our work together.

PREPARED STATEMENT OF JAMES M. ANDREW, ADMINISTRATOR, RURAL UTILITIES
SERVICE

Mr. Chairman, members of the Subcommittee, thank you for the opportunity to present the President's fiscal year 2007 budget for USDA Rural Development utilities programs. This is my first appearance before you and I appreciate the opportunity. We value the work and support you and other members of this subcommittee have provided us so that together we can provide a strong, dependable infrastructure in the rural United States.

A strong rural America is important for a strong Nation. We consider the rural utilities programs an important part of the USDA Rural Development mission. Safe, affordable, modern utility infrastructure is an investment in economic competitiveness and serves as a fundamental building block of economic development. Changes in the landscape of rural America, along with developments in technology and changes in market structure, combined with an ageing utility infrastructure, are impacting the electric, telecommunications and water sectors. Without the help of USDA Rural Development's utilities programs, rural citizens face monumental challenges in participating in today's economy, as well as maintaining and improving their quality of life.

The \$43.5 billion rural utilities loan portfolio includes investments in 8,000 small community and rural water and waste disposal systems, as well as approximately 2,000 electric and telecommunications systems serving rural America. This local/Federal partnership is an ongoing success story. Eighty percent of the Nation's landmass continues to be rural, encompassing 25 percent of the population. For an economy to prosper, we need infrastructure investment to spur economic growth, create jobs and improve the quality of life in rural America.

ELECTRIC PROGRAM

The Electric Program budget proposes a program level of \$3.8 billion supported by \$2.7 million in budget authority. This includes a hardship program level of \$99 million and a \$39.6 million program level for municipal rate loans. The Direct Treasury rate loan program level is proposed to be \$700 million. There is also \$3 billion for the guarantee of Federal Financing Bank (FFB) direct loans. The FFB loans are made at the cost of money to the Federal Government plus an one-eighth of a percent. Both the President and Congress have provided very generous loan levels over the past four years and we have been able to eliminate the backlog in loan applications. I believe the President's budget request will meet the demand during the 2007 fiscal year.

To meet the demands of economic growth across our Nation, the need for transmission lines to deliver electric power where it is needed is placing new demands on cooperatives providing transmission service. Last year we predicted that because in the last twenty years no new base load capacity had been built, there would be an increasing demand for power generation and transmission. We are now seeing the first of many applications for those base load requirements. However, past history has shown that base load is riskier than other projects. We intend to develop a separate subsidy rate that reflects the increased risk and incorporates a fee to offset the cost. Legislation will be necessary to allow for a fee. Within the \$700 million requested for direct loans, we plan to make \$200 million available for renewable energy projects.

TELECOMMUNICATIONS PROGRAM

The area of rural telecommunications is the most rapidly changing aspect of rural utilities infrastructure. Job growth, economic development, and the quality of life in rural America are directly tied to access to today's high speed telecommunications. We administer the Broadband Loan Program, the traditional Telecommunications Infrastructure Loan Program, as well as Distance Learning and Telemedicine Loan and Grant Programs.

The fiscal year 2007 Broadband Loan Program budget proposes a program level of \$356.4 million driven by \$10.8 million in budget authority. This replaces the mandatory funding provided by the Farm Bill for the 2007 fiscal year. Moreover, as a result of decreased subsidies, the President's budget will deliver nearly the same program level as was anticipated by the Farm Bill. When the 2002 Farm Bill was enacted, the mandatory funding anticipated a program level of approximately \$400 million a year. The proposed budget is reflective of the intent of the Farm Bill and as it has turned out, more in concert with the demand in qualified loan applications.

Included in the broadband loans budget proposal is \$29.7 million in direct 4 percent loans requiring \$3 million in budget authority; \$297 million in direct Treasury Rate loans requiring \$6.4 million in budget authority, and \$29.7 million in guaranteed loans requiring \$1.4 million in budget authority.

We are reviewing every aspect of the program with a view toward making needed improvements. We must continue to balance fiduciary responsibility with mission delivery. Making bad loans helps no one; making successful loans helps everyone.

In the regular Telecommunications Program, the 2007 budget proposes a program level of \$689 million. Included is \$143.5 million in direct 5 percent loans, \$246.7 million in direct Treasury Rate loans, and \$299 million in Federal Financing Bank

(FFB) direct loans guaranteed by USDA Rural Development. All of this is driven by \$605,000 in budget authority.

I am happy to report that the dissolution of the Rural Telephone Bank is progressing on schedule. No funds are requested for that program.

Distance learning and telemedicine technologies are having a profound impact on the lives of rural residents. This program helps rural schools and learning centers to take advantage of the information age and enables rural hospitals and health care centers to have access to quality medical services only found in large hospitals. The Distance Learning and Telemedicine (DLT) program pulls together the best of Federal assistance and local leadership. The DLT grants are budgeted at \$24.75 million. The President's proposal does not request loan program funding simply because the demand for loans to schools and hospitals has never developed and funding is available from previous years to support new loans in fiscal year 2007.

WATER AND ENVIRONMENTAL PROGRAMS

The Water and Environmental Programs provide the most basic of infrastructure needs for rural citizens: clean, safe, affordable drinking water and ecologically sound wastewater disposal. No element is more vital to human life and dignity as clean, safe water. Rural communities are challenged to provide this vital service while facing increasing regulatory requirements and persistent drought conditions across a large area of the country.

The budget request seeks a program level of \$1.4 billion in loans and grants, costing \$514 million in budget authority. The total is divided with \$990 million in direct loans and \$75 million in loan guarantees for the Water and Waste Disposal programs. The direct loan program requires \$164.7 million in budget authority. The budget request also includes \$345.9 million in Water and Waste Disposal Grants and \$3.4 million in Solid Waste Management Grants.

SUMMARY

Rural Utilities infrastructure programs are interwoven in the fabric of USDA Rural Development programs. To provide safe, clean, water; modern communications; and reliable, affordable electric power means businesses can develop, homes can have light and heat, and markets can be opened to the rest of the world. We will play our part in building communities from the ground up.

Thank you for the opportunity to present the President's fiscal year 2007 Budget for USDA Rural Development utilities programs.

PREPARED STATEMENT OF DR. JOSEPH J. JEN, UNDER SECRETARY, RESEARCH, EDUCATION, AND ECONOMICS

Mr. Chairman, members of the Committee, it is my pleasure to appear before you to discuss the fiscal year 2007 budgets for the Research, Education, and Economics (REE) mission area agencies of the USDA. I am accompanied by Dr. Merle Pierson, Deputy Under Secretary of REE and the Administrators of the four agencies: Dr. Edward Knipping, Administrator of the Agricultural Research Service (ARS); Dr. Colien Hefferan, Administrator of the Cooperative State Research, Education, and Extension Service (CSREES); Dr. Susan Offutt, Administrator of the Economic Research Service (ERS); and Mr. Ronald Bosecker, Administrator of the National Agricultural Statistics Service (NASS). Also present is Dr. Scott Steele, Director of the Office of Budget and Program Analysis of the Department. Each Administrator has submitted written testimony for the record.

The President is committed to reducing the budget deficit by half, and USDA as well as many departments across the Federal Government have been called on to help make this a reality. The President's fiscal year 2007 budget proposes \$2.283 billion for the four REE agencies to conduct research, education, economics and statistical programs. This represents a slight decrease of \$39 million from the level in the President's fiscal year 2006 budget and a \$401 million decrease from the total REE appropriation in fiscal year 2006. Within this decrease, the agency budgets have critical increases in high priority areas such as food and agricultural defense, nutrition and obesity, genomics, and animal and plant diseases.

Agricultural research is truly the lynchpin of the American food and agricultural system. A great deal of the system's success over many decades is attributable to the new scientific understandings and technology generated by our national food and agricultural research system, of which USDA's research agencies are key components. Numerous studies have found that the return on investment in agriculture research is high. Whether measured in productivity, competitive strength in global

markets, environmentally sustainable production practices, or new science-based food safety technology, research and development underpins essentially all advances in the food and agriculture sector. It provides a necessary condition for success. Natural events, market conditions and resistance to adoption of new technologies can be formidable barriers to success. At the same time, absent cutting-edge research, the food and agriculture sector runs the risk of losing its edge in increasingly competitive global markets. In that context, I look forward to your consideration of the many important requests for the four REE agencies proposed in the President's budget.

The budget we are discussing today includes what I consider to be an innovative and excellent proposal for restructuring the Hatch and McIntire-Stennis formula programs. The Administration has been on record for some years as believing that competitive programs provide the most effective mechanism for allocating research funds to solve pressing national problems. Consistent with that proposition, the fiscal year 2007 President's budget proposes an innovative approach to introducing competition into the Hatch and McIntire-Stennis formula programs. Under the proposal, the current Hatch multi-state research program will be expanded from 25 percent to approximately 56 percent of the total Hatch funding in 5 years. As current multi-state projects are completed, an increasing portion of these multi-state funds will be competed. A similar proposal is made for the McIntire-Stennis formula program, with the introduction of a new nationally-competed multi-state program in fiscal year 2007.

This design of the proposal for the two formula programs is responsive to the concerns raised by many stakeholders to last year's budget proposal. Among other things, the new proposal sustains matching funds and sustains the land grant institutions' Federal funds for leveraging non-Federal resources. In addition, it does not reduce appropriated funding from the fiscal year 2006 enacted level. The Department looks forward to working with the State Experiment Stations and forestry colleges in developing an implementation plan for this expanded multi-state program.

Before turning to the individual agency budgets, I would like to describe increases in three particularly high priority areas for the Department: food and agricultural defense, nutrition and obesity, and genomics.

Food and Agricultural Defense Initiative.—Now in its 5 year, the Food and Agriculture Defense Initiative is designed to strengthen the Federal Government's capacity to defend the Nation's food and agricultural systems against terrorist attacks, major disasters and other emergencies. The fiscal year 2007 budget provides increased program funding of \$42.3 million for ARS and \$7.1 million for CSREES to expand their participation in this initiative.

Under the Food Defense component of the initiative, ARS increases will allow the agency to expand its food safety research, particularly focused on developing technology that rapidly identifies suspected food pathogens and toxins. The budget also proposes an increase of \$4.2 million for ARS' National Plant Disease Recovery System which is designed to ensure that disease resistant seed varieties are continually developed and made available to producers in the event of a natural or intentional catastrophic disease or pest outbreak. An increase of \$24.6 million will support strengthening ARS' ongoing research on rapid response systems to bioterror agents, improved vaccines, and identification of genes affecting disease resistance.

The budget provides CSREES \$12 million, an increase of \$2.1 million from fiscal year 2006, to maintain and enhance the Regional Diagnostic Network of public agricultural institutions that serves as a component of APHIS diagnostic laboratories for both animals and plants. The initiative also includes \$5 million for a competitive Higher Education Agrosecurity Program that promotes the training of food system defense professionals critically needed in securing our Nation's agriculture and food supply.

Nutrition and Obesity.—Concern continues regarding the epidemic of obesity in the Nation. Particularly distressing is the incidence of obesity in children, estimated to be approximately 16 percent for children and adolescents ages 6 to 19. Recent studies show that Type 2 diabetes, previously considered an adult disease associated with obesity, is increasingly found in children. Future projections of the incidence of diabetes, particularly for Hispanic and African-American children, are alarming. The causes of obesity are many and complex. Levels of physical activity, reliance on convenience food, large food portions, and genetic make-up all play a role. Whatever the set of causes and their interplay, collectively they portend greater problems for individuals, families, communities and the country, with the potential for significant productivity losses to the economy and increases in health-related expenses. Funding for research now could significantly contribute to the reduction of these negative impacts in the future.

As the Federal Government department most closely associated with food policy and programs, USDA has an important role in addressing the obesity challenge and more broadly promoting healthy nutrition and weight. Its food assistance, nutrition education, and nutrition research programs are all addressing this major national public health problem.

Under the President's HealthierUS Initiative, the fiscal year 2007 budget proposes increases and program redirections for ARS, CSREES, and ERS that will strengthen the Department's capacity to address obesity and associated issues. The increases focus on gaining a better understanding of food consumption patterns and the factors influencing them, and on developing effective interventions to promote healthy dietary choices.

ARS increases and redirection of funds total \$11.3 million, of which \$4.7 million will support a longitudinal study to assess the long-term benefits and approaches to controlling weight. We know that it is easy for people to control weight for a short period, but very difficult to do so for extended periods of time. This initiative will be the only one of its type to address the efficacy of the healthful eating and physical activity patterns set forth in the Dietary Guidelines in preventing obesity in the U.S. population, with particular attention focused on children. One aspect of the obesity conundrum is that the factors affecting dietary choices and the effects of those choices are not only complex, but vary with subpopulations. Redirected funds in ARS will be used to gain a better understanding of dietary patterns that contribute to obesity in low socioeconomic and minority populations. Other redirected funds will support research to develop effective, and likely distinct, dietary strategies for children, middle-aged adults and Native Americans.

An ERS increase of \$1.6 million under the agency's new consumer data and information system will be used to obtain food-away-from-home data that is important in supporting the development and targeting of USDA policies and programs to help improve the diets and nutrition of all consumers, particularly low-income consumers.

Genomics.—The future of agriculture rests in genomics and associated molecular biology. Moreover, in many ways that future is here. Genomics and molecular biology are now effectively being used in many types of food and agricultural research focused on a wide range of research objectives. Over the last several years, ARS and CSREES have increased their investment in genomics and molecular biology, helping to lay the foundation for their use today in applied research. Past increases have supported sequencing the genome of important agricultural plants and animals and learning about the functions of different genes and how they can be turned on and off. ARS and CSREES supported researchers are now aggressively using the technology associated with genetic and molecular biology toward such goals as developing rapid detection tests, isolating disease resistant plant varieties, and enriching the nutrients in food.

Both the ARS and CSREES budgets continue a trend of requested increases in genomics. The President's fiscal year 2007 budget provides a total of almost \$17.7 million for the two agencies. The ARS budget provides an additional \$8.7 million to identify genes that influence animal and plant growth and quality, disease resistance, and other economically important traits. The proposed increases in the National Research Initiative (NRI) of CSREES would support new or more research in domestic animal genomics (\$5 million), genomics to improve production of biofuels and biobased products (\$1 million) and molecular biology to improve the water use efficiency of plants (\$3 million).

An important part of the ARS and CSREES genomics programs is active partnering with other science institutions and governments. For example, research on plant genomics, in particular sequencing the soybean genome, is being supported through a CSREES partnership with the U.S. Department of Energy. ARS and CSREES are both coordinating their genomics research with NIH's National Human Genome Research Institute, and the National Science Foundation.

Classical Chinese Garden.—Under the ARS Building and Facilities program, the President's budget proposes \$8.4 million towards a Classical Chinese Garden at the U.S. National Arboretum. The Garden is a gift from the Chinese government and people to the U.S. Government and people. Once completed, the Garden will be the finest example of a Classical Chinese Garden outside of China. The Garden will also enrich the Arboretum's research program, through increasing the availability of vast numbers of plants from China that can be used to develop new and improved ornamental and floral plants in the United States. The proposed \$8.4 million will be used for design validation, infrastructure, and site preparation only. An estimated equivalent of over \$50 million will be contributed by the China's State Forestry Administration towards the Garden. The Chinese government is providing the garden structures, rockeries, furniture, art objects, and unique plants and is reassembling

all the structures and placing them on the infrastructure foundation provided by the United States.

REE FISCAL YEAR 2007 INITIATIVES

I would now like to turn briefly to the budgets of the four REE agencies.

Agricultural Research Service.—The Agricultural Research Service fiscal year 2007 budget requests slightly over \$1 billion in ongoing research and information programs and facilities. Within the total, the budget proposes increases of \$57.7 million dedicated to high priority programs addressing issues of national and regional importance, several of which were previously described. The budget also proposes \$49.1 million in program redirections of ongoing base resources to enhance priority research objectives. To offset the increases, terminations of approximately \$195.7 million in current programs are proposed. As the principal intramural biological and physical science research agency in the Department, ARS continues to play a critical role for the Department and the larger agricultural community in conducting both basic and mission-oriented research. Results from ARS' basic research provide the foundation for applied research carried out by ARS, academic institutions and private industry. ARS' applied research and technology development address the research needs of other USDA agencies, as well as of those engaged in the food and agriculture sector.

In addition to the increases previously described, the ARS budget proposes increases to strengthen its research program addressing several diseases, pests, and pathogens threatening crop and animal production and marketing and in some cases, human health. Bovine Spongiform Encephalopathy (BSE) continues to be a challenge for the livestock sector, particularly as it relates to foreign markets. An increase of \$9.8 million will support ARS scientists in the development of countermeasures to detect, control, and eradicate future BSE and Chronic Wasting Disease. Rust diseases, such as Asian soybean rust, pose severe problems throughout the United States. A \$3.9 million increase will focus on controlling or minimizing the spread of rust diseases of grains and soybeans. Throughout the country, different varieties of invasive weeds, insects, and pathogens cause tens of billions of dollars of agricultural losses each year. Research on these wide-ranging threats such as the Asian Longhorned Beetle and Salt Cedar will be enhanced with a proposed \$5.4 million increase.

Development of biobased fuels continues to be a high Administration priority. Research is critical to both improve the agricultural biomass feedstock for the production of energy and to develop the technologies to produce biofuels from the feedstock. An increase of \$3.6 million will enhance ARS on both these research objectives, as well as development of other biobased products. Other priority programs to be strengthened through funding increases or redirections include climate change and associated carbon sequestration, water quality and technologies to minimize vulnerability to drought, and air quality in the context of animal feeding.

The Abraham Lincoln National Agricultural Library (NAL), one of four national libraries, serves as a valuable national resource for information on food and agricultural sciences. Full integration of many kinds of digital information and fast, seamless navigation among them are essential for NAL to meet the increasingly complex customer demands. Proposed funding of \$4 million will be used to sustain the national collection of agricultural information warranted by a national library. The funds will also be used to continue developing information technology to manage and deliver information efficiently.

Cooperative State Research, Education, and Extension Service.—The President's fiscal year 2007 budget provides the Cooperative State Research, Education, and Extension Service just over \$1 billion, which is approximately the same as the President's fiscal year 2006 budget and \$161.3 million less than fiscal year 2006. In providing critical funding for the research, education, and extension programs of the Land Grant system and other universities and organizations across the country, CSREES continues to play a central role in the generation of new knowledge and technology, and the transfer of that knowledge and technology to stakeholders.

The restructuring of the Hatch and McIntire-Stennis formula programs at the same overall funding levels as fiscal year 2006 is a critical part of CSREES' budget proposal. The budget also includes important increases to strengthen high priority programs.

The NRI, the agency's flagship competitive research program, continues to be a very effective avenue for supporting cutting-edge research conducted by the finest scientists across the country. The fiscal year 2007 budget proposes a \$66.3 million increase in the NRI. In addition to the increases in genomic research previously described, the budget provides for increases in animal production, emerging issues in

food and agricultural biosecurity, and invasive species. A \$42.3 million increase in the NRI on-going programs is being shifted from the Integrated Activities account to the NRI to achieve greater efficiency in program administration. The focus of the programs, including water quality and food safety, will stay the same.

The proposed CSREES budget also includes an increase of about \$1 million to a total of \$6.9 million to fund outreach and technical assistance for socially disadvantaged farmers and ranchers.

Economic Research Service.—The Economic Research Service is provided \$82.5 million in the President's fiscal year 2007 budget. As the Department's principal intramural economics and social science research agency, ERS conducts research and analysis on the efficiency, efficacy, and equity aspects of issues related to agriculture, food safety, human nutrition, the environment, and rural development. In addition to the increases described above related to obesity and nutrition, the budget includes \$5 million to fund a new Agricultural and Rural Development Information System, a comprehensive data collection and research program to monitor the economic health and well-being of farm and non-farm households in rural areas. The increase will support collection of multiple-year, longitudinal information on rural household in areas with specific challenges, such as persistent poverty and population loss, and adds a longitudinal component to USDA's Agricultural Resource Management Survey (ARMS) to collect information on farms in the same areas. In particular, the information generated will support programs administered by the Department's Rural Development mission area.

National Agricultural Statistics Service.—The National Agricultural Statistics Service budget requests \$152.5 million, an increase of \$13.3 million over the fiscal year 2006 Act. NASS' comprehensive, reliable, and timely data are critical for informing policy decisions to keep agricultural markets stable, and to ensure a level playing field for all users of agricultural statistics. The President's budget provides increases in the agency's agricultural estimates program and the Census of Agriculture.

An increase of \$3.9 million is directed at the continuing restoration and modernization of the agency's core survey and estimation program begun in fiscal year 2004. Producers rely on the NASS surveys as being comprehensive and accurate in making their decisions. Funding received in the fiscal year 2004 through fiscal year 2006 appropriations has been used to successfully improve the precision level for commodity surveys conducted by NASS for State, regional, and national estimates through sample size increases and better survey response. Funding requested in fiscal year 2007 will promote data quality by encouraging voluntary response through increased respondent awareness of market and policy reliance upon USDA-NASS statistical measures and by improving the data collection capabilities of local interviewers throughout the Nation. The budget also provides an increase of \$7.3 million for the Census of Agriculture based on its 5 year cycle. The increase supports the normal increase in the level of activity as the next Census year, 2007, approaches. The 2007 data will be collected in 2008. For the first time, respondents will be able to complete the survey over the Internet.

SUMMARY

In summary, the REE agencies' budgets we are discussing today present a balanced research, education, and economics portfolio, with investments in such high priority issues as animal disease, nutrition and obesity, food safety and farm household well-being. Such a budget is particularly notable at a time of severe budget constraints.

Reflecting back on the importance of research to the long-term success and competitiveness U.S. agriculture, it is critical that a strong, dynamic, and focused food and agricultural research portfolio be sustained. The proposals for REE in the President's budget will do just that. This concludes my statement. Thank you for your attention. I look forward to answering your questions.

PREPARED STATEMENT OF DR. EDWARD B. KNIPLINGS, ADMINISTRATOR,
AGRICULTURAL RESEARCH SERVICE

Mr. Chairman, and members of the Subcommittee, I appreciate this opportunity to present the Agricultural Research Service's (ARS) budget recommendations for fiscal year 2007. The President's fiscal year 2007 budget request for ARS' research programs is a little over \$1 billion, a net decrease of \$123 million or about 11 percent from the fiscal year 2006 funding level. There are several components to ARS' fiscal year 2007 budget request: (1) \$106.8 million for new and expanded priority research initiatives (\$57.7 million represents a net increase in budget authority and

\$49.1 million is from reprogramming); (2) \$15.4 million for pay costs; (3) \$3.1 million for reprogramming recommendations to transfer resources from existing locations in support of priority research needs; and (4) \$195.7 million for proposed program and project terminations.

Of the proposed new and enhanced research increases, \$48.2 million is in support of the Federal Government's initiative to strengthen the Nation's homeland security. Homeland security research is in the areas of food safety, emerging and exotic diseases of animals and crops, and for the National Plant Disease Recovery System. ARS is also proposing new and expanded initiatives for research on Bovine Spongiform Encephalopathy (BSE), invasive species of animals and plants, nutrition and obesity, genetics and genomics, biobased products and bioenergy, air and water quality, and climate change. Increases for the National Agricultural Library and information technology are also requested.

The budget proposes the termination of a number of research laboratories and projects and associated resources appropriated in recent years totaling \$195.7 million. The savings to be achieved through the proposed terminations will finance the higher priority research initiatives proposed in ARS' budget, as well as help reduce overall Federal spending.

The ARS budget also includes \$8.4 million under its Buildings and Facilities account for the construction of infrastructure for a Classical Chinese Garden at the U.S. National Arboretum in Washington, DC.

PROPOSED PROGRAM INCREASES AND REDIRECTIONS

These high priority increases respond to urgent, nationwide issues in critical areas, such as homeland security, emerging diseases, food safety, obesity, climate change, invasive species, and genomics and genetics, that affect the entire country.

—*Food Safety—\$13.8 Million.*—Ensuring the safety of the Nation's food supply is essential and vitally important to the Nation's homeland security. Bioterrorism against our food supply would affect the health and safety of consumers and their confidence in the safety of the foods they consume. It would also have far-reaching impacts on the country's economy, since U.S. agriculture employs nearly one-quarter of the Nation's workforce and annually contributes over one trillion dollars to the gross domestic product. ARS research will focus on assessing the vulnerabilities of the food supply, strengthening and expanding laboratory preparedness, and developing technologies which rapidly identify suspected food pathogens and toxins. ARS will work in these areas of prevention, detection, and response with the Food Safety and Inspection Service and other USDA agencies, through programs, such as the Collaboration for Animal Health and Food Safety Epidemiology.

—*Human Nutrition/Obesity Prevention Research—\$11.3 Million.*—Two of every three American adults and an increasing number of children are overweight or obese, making obesity one of this country's fastest growing public health problems. It contributes to heart disease, cancer, diabetes, and other illnesses resulting in hundreds of billions of dollars in health care costs each year. Understanding food consumption trends and the factors that influence dietary choices is critical for developing strategies for preventing and mitigating obesity. ARS will use the proposed increase to conduct nutrition surveys and research to prevent childhood and adult obesity, and to develop strategies which encourage healthy food choices.

—*Avian Influenza (AI) and Foot-and-Mouth Disease (FMD)—\$6.1 Million.*—Animal health officials define a foreign animal disease as a transmissible livestock or poultry disease that has a potentially significant health or economic impact. AI and FMD are two of the most serious foreign animal diseases which presently threaten the United States. ARS will use the proposed increase to: develop diagnostic detection tools that can be more widely used in field situations, increase our understanding of disease epidemiology (i.e., spread of virus, routes of transmission, persistence of infection), and deploy countermeasures in the form of vaccines and antivirals.

—*Bovine Spongiform Encephalopathy (BSE) and Chronic Wasting Disease (CWD)—\$9.8 Million.*—BSE is a progressive, degenerative, fatal disease affecting the central nervous system of adult cattle. It is believed that eating contaminated beef products from BSE-affected cattle causes a variant form of Creutzfeldt-Jacob Disease in humans. The first case of BSE was identified in the United States on December 23, 2003. CWD is a disease which affects deer and elk. Unlike BSE, CWD does not appear to be transmissible to humans, but it is worrisome because it could jump species barriers and become more virulent

- or infectious. The proposed increase will enable ARS scientists to develop countermeasures to detect, control, and eradicate future BSE and CWD outbreaks.
- Soybean and Wheat Stem Rust—\$3.9 Million.*—Rust diseases pose severe problems in crops throughout the United States. Since 2000, Stripe Rust has caused hundreds of millions of dollars in losses to wheat growers. Asian Soybean Rust (SBR) is reported to cause up to 80 percent yield losses in numerous countries around the world. The first incidence of SBR, in nine soybean producing States in the United States, was confirmed by the Animal and Plant Health Inspection Service (APHIS) in 2004. The proposed increase will be used to control or minimize the spread of SBR, Stripe Rust, and other rust diseases of grains and soybeans.
- Emerging and Exotic Diseases of Animals and Plants—\$15.3 Million.*—The United States is increasingly vulnerable to emerging animal and plant diseases which could threaten the Nation's homeland security. The threat of new diseases—whether they are a result of bioterrorism or of naturally occurring epidemics—is an urgent and growing challenge to livestock producers. Bovine Viral Diarrhea in cattle, Porcine Reproductive Respiratory Syndrome in swine, and Marek's disease virus in chickens are examples of these exotic diseases. Harmful animal diseases introduced to the United States in recent years from foreign countries include Exotic Newcastle Disease and Monkeypox. Brucellosis, Leptospirosis, and West Nile Virus are still other examples of zoonotic diseases that pose a threat not only to animals but to humans as well. Similarly, exotic and emerging plant diseases—wheat and barley rusts, citrus canker, and corn viruses—present a potential threat to the Nation's agriculture industry. With the proposed increase, ARS will develop vaccines, intervention strategies, and diagnostics for the detection, identification, control, and eradication of these animal and plant disease threats.
- Emergency Research Needs and Research to Assist APHIS—\$7.4 Million.*—APHIS has requested help from ARS in controlling various animal diseases, such as FMD, Rift Valley Fever, and Classical Swine Fever, and plant diseases, such as Citrus Canker and Citrus Leprosis Virus. There is also a need for ARS to be able to respond to unanticipated special research needs and emergencies. Often, funds are not readily available for these situations. The proposed increase will provide ARS with the flexibility to respond quickly to special needs and emergencies as well as support APHIS' efforts to control and eradicate pests and diseases.
- National Plant Disease Recovery System—\$4.2 Million.*—The emergence or spread of certain plant diseases, such as soybean rust, citrus variegated chlorosis, or bacterial wilt, could seriously harm America's agriculture. Recovery from a significant disease outbreak requires a national system to manage host/pathogen interactions using cultural, biological, and chemical control strategies and deploy resistant plant resources. Homeland Security Presidential Directive (HSPD-9) has charged ARS with the responsibility for leading this effort with the Cooperative State Research, Education and Extension Service (CSREES), APHIS, and others. ARS will use the proposed increase to minimize the impacts of devastating crop diseases by documenting and characterizing plant diseases, developing germplasm and plant varieties with improved disease resistant characteristics, implementing integrated pest management approaches, and transferring genetic resources (i.e., disease resistant plant varieties) to its customers.
- Invasive Species—\$5.4 Million.*—Invasive weeds, insects, pathogens, and other pest species cost the United States tens of billions of dollars each year in agricultural losses, negatively impacting the environment and biodiversity as well. Sudden Oak Death has had negative effects on California's plant nurseries. Salt Cedar and Yellow Starthistle (invasive weeds) have caused agricultural and environmental damage in several western States. Lobate Lac Scale, Asian Longhorned Beetle, and Emerald Ash Borer (invasive insects) have caused damage to a wide range of plant species. Animals are also at risk. Imported Fire Ants, which inhabit over 350 million acres in 12 southern States, from Texas to Virginia, damage crops and are a threat to livestock, wildlife, and humans. ARS will use the proposed increase to target its research on controlling invasive species including Imported Fire Ants, Sudden Oak Death, Salt Cedar, Yellow Starthistle, Lobate Lac Scale, Asian Longhorned Beetle, and Emerald Ash Borer.
- Applied Genomics—\$8.7 Million.*—Genomics holds the key to maintaining America's agricultural competitiveness in global markets. Advances in genomics research can improve the production and quality of food products, prevent animal and plant diseases, and produce foods which are richer in nutrients. To capture the potential of genomics, ARS needs to continue its work on character-

izing, identifying, and manipulating the useful properties of genes and genomes. In this regard, ARS will use the proposed increase to identify genes that influence animal and plant growth and quality, disease resistance, and other economically important traits. ARS will continue to coordinate its genomics research with National Institutes of Health's National Human Genome Research Institute, CSREES, and the National Science Foundation.

- Genetic Resources—\$2.6 Million.*—The rate of extinction of lines and strains of food animals and plants is accelerating. The Nation needs a more comprehensive program to maintain threatened germplasm to prevent the loss of genetic diversity. An adequate supply of useful genes is essential in the event of bioterrorism or other crises (e.g., FMD, Exotic Newcastle Disease, etc.). With the proposed increase, ARS will enhance its ability to collect, identify, characterize, and incorporate plant germplasm into centralized gene banks. The additional funding will help sustain ARS' National Plant Germplasm System repositories; it will also enable further development of cryopreservation technologies for long-term storage of important animal germplasm (i.e., of poultry, aquaculture, cattle and swine).
- Biobased Products/Bioenergy Research—\$3.6 Million.*—The Biomass Research and Development Act of 2000 and the Food Security and Rural Investment Act of 2002 encourages the development and use of biobased products. There is also a need to expand the development of bioenergy. ARS will focus its research on: (1) improving the quality and quantity of agricultural biomass feedstocks for the production of energy and biobased products, (2) developing technologies to produce biofuels from agricultural commodities and byproducts, and (3) developing technologies leading to new value-added products from food animal byproducts. Increased development of bioenergy and biobased products will expand market opportunities for U.S. agriculture, reduce the Nation's dependence on petroleum imports from unstable regions, and improve environmental quality by reducing air pollution and greenhouse gas emissions.
- Air/Water Quality and Drought Mitigation—\$3.5 Million.*—Millions of Americans are exposed to air pollution levels that exceed the Environmental Protection Agency's air quality standards. Agriculture activities, such as animal production operations, which produce ammonia, particulate matter, and volatile organic compounds, can adversely affect air quality. Another concern is the quantity and quality of water available in the United States. Drought and its impacts annually cost the Nation \$6 to \$8 billion. ARS will use the proposed increase to develop new technologies that reduce gaseous and particulate matter emissions from animal feeding operations. It will also provide technologies that help ensure adequate water for agriculture and improve the health of the Nation's streams, rivers, and lakes.
- Global Climate Change—\$3.2 Million.*—Climate change encompasses global and regional changes in the earth's atmospheric, hydrological, and biological systems. Agriculture is vulnerable to these environmental changes. The objective of ARS' global change research is to develop the information and tools necessary for agriculture to mitigate climate change. ARS has research programs on carbon cycle/storage, trace gases (i.e., methane and nitrous oxide), agricultural ecosystem impacts, and weather/water cycle changes. ARS will use the proposed increase to develop climate change mitigation technologies and practices for the agricultural sector. Specifically, ARS will: (1) conduct interdisciplinary research leading to technologies and practices for sustaining or enhancing food and fiber production and carbon sequestration by agricultural systems exposed to multiple environmental and management conditions, (2) expand the existing network of ARS sites conducting measurements of greenhouse gas fluxes between the atmosphere and the land, and (3) identify ways to decrease methane emissions associated with livestock.
- National Digital Library for Agriculture and Improved Agricultural Information Services—\$4.0 Million.*—In 2001, both a "Blue Ribbon Panel" and an advisory board concluded that the National Agricultural Library (NAL) needed increased resources to meet its potential, taking advantage of technological innovations for timely information access and retrieval. Full integration of many kinds of digital information and fast, seamless navigation among them are essential for NAL to satisfy the increasingly complex interdisciplinary information needs of its customers. The proposed funding will support the revitalization of NAL, enabling it to better deliver relevant information products, satisfy increasingly complex customer demands, and provide leadership as the premier agricultural information resource of the United States.
- Information Technology—\$4.1 Million.*—ARS information technology (IT) systems and networks are exposed to an unprecedented level of risk. Of particular

importance is safeguarding the Agency's pathogenic, genomic, and other sensitive research information from being acquired or destroyed by unauthorized intruders through unprotected or undetected cyber links. Agencywide centralized security measures are needed to counter security threats. ARS must also ensure that its IT infrastructure (i.e., computers, network hardware, etc.) is up-to-date and reliable. ARS will use the proposed increase to replace, upgrade, and secure its IT equipment and systems.

PROPOSED OPERATING INCREASES

In addition to the proposed research initiatives, ARS' fiscal year 2007 budget provides funding to cover costs associated with pay raises. An increase of \$15.4 million is essential to finance these costs and to avoid erosion of the Agency's base resources.

PROPOSED PROGRAM DECREASES

ARS is proposing the reduction/termination of selected research programs and projects, totaling \$195.7 million, to finance higher priority research and support the Administration's efforts to reduce spending and the Federal deficit. As the country faces new challenges in the areas of homeland security, food safety, and obesity, ARS needs to reprioritize and reallocate resources. Many of the projects being reduced or terminated pertain to research carried out by other ARS locations or other research institutions.

PROPOSED REPROGRAMMINGS

The proposed budget includes \$3.1 million to reprogram programs and resources currently operating at Baton Rouge, Louisiana and Lane, Oklahoma. Funding for Soil and Water research at Baton Rouge, Louisiana is proposed to be reprogrammed to higher priority initiatives and obesity research at the Pennington Biomedical Research Center at Baton Rouge. Similarly, funding for crop genetics research at Lane, Oklahoma is proposed to be reprogrammed to higher priority forage-livestock research at ARS' El Reno and Woodward, Oklahoma locations.

PROPOSED INCREASE FOR BUILDINGS AND FACILITIES

The fiscal year 2007 budget recommends \$8.4 million for ARS' Buildings and Facilities account. The Agency is recommending these funds be used to assist in the construction of a Classical Chinese Garden (CCG) at the U.S. National Arboretum (USNA) in Washington, DC, most of which will be built and paid for by the People's Republic of China. The Garden will serve as a symbol of friendship between the Chinese and American people and help promote better relations between the two nations. The proposed new garden will also serve as a major research facility. The project will enable the introduction of unique Chinese flowers and plants into the United States for horticultural research purposes.

CCG is a priority project for the USDA and the People's Republic of China (PRC). The design was developed by a joint team from the PRC and the United States and has been approved by the National Capital Planning Commission and the District of Columbia Commission on Fine Arts.

The structure, landscaping, and interior furnishings of the CCG will be provided by the Chinese State Forestry Administration. The land at USNA has been made available by USDA. As part of this venture, USDA is responsible for providing the infrastructure and site work, including grading and foundations. The proposed \$8.4 million is to cover these activities. USDA will subsequently be responsible for the security and maintenance of the garden.

Mr. Chairman, this concludes my presentation of ARS' budget recommendations for fiscal year 2007. I will be happy to respond to any questions the Committee may have.

PREPARED STATEMENT OF DR. COLIEN HEFFERAN, ADMINISTRATOR, COOPERATIVE
STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE

Mr. Chairman and Members of the Committee, I appreciate the opportunity to present the President's fiscal year 2007 budget for the Cooperative State Research, Education, and Extension Service (CSREES), one of the four agencies in the Research, Education, and Economics (REE) mission area of the United States Department of Agriculture (USDA).

The CSREES fiscal year 2007 budget proposal is just over \$1 billion. CSREES, in concert with the Secretary of Agriculture and the intent of Congress, works in

partnership with the land-grant university system, other colleges and universities, and public and private research and education organizations to initiate and develop agricultural research, extension, higher education, and related international activities to advance knowledge for agriculture, the environment, human health and well-being, and communities. In addition, CSREES implements grants for organizations to better reach and assist disadvantaged farmers and ranchers in accessing programs of USDA. These partnerships result in a breadth of expertise that is ready to deliver solutions to problems facing U.S. agriculture today.

The fiscal year 2007 CSREES budget request aligns funding and performance with the USDA strategic goals. CSREES manages its many budget elements in support of research, education, extension, and outreach programs as part of a cohesive whole supporting all six of the Department's strategic goals. The Agency defines distinct performance criteria, including strategic objectives and key outcomes with identified annual targets. As part of an integrated budget and performance process, CSREES conducts periodic portfolio reviews by external experts to monitor overall program progress, suggest alternative approaches, and propose management improvements.

In support of the Administration's commitment to ensure that Federal funds are used to support the highest quality research, the fiscal year 2006 Budget proposed to increase overall funding for competitive peer reviewed research and reduce funding for formula grant programs that do not allocate funds based on a competitive process. Extensive analysis of the stakeholder response to the proposal indicated that primary concerns included the lack of consultation with affected universities and stakeholders, loss of matching funds, program continuity and length of awards, sustaining breadth of capacity in agricultural science and education nationwide, providing responsiveness to State and local issues, and leveraging and sustaining partnerships across institutions.

In response to the concerns, CSREES proposes a new initiative that supports the Administration's belief that the most effective and flexible way to fund research projects is through peer reviewed competitive awards that address national issues, while at the same time, responds to stakeholder concerns and still retains overall funding at enacted levels. CSREES recognizes that multi-state programs have been an effective part of the portfolio of work funded through the Hatch formula, assuring focused, non-duplicative, collaborative, problem-solving science. This program lends itself to national peer review. To achieve the goals of expanding competitiveness and peer review, we propose an approach that would expand and continuously recompute the multi-state awards of the Hatch Act program; and establish a similar, though separately authorized, program for McIntire-Stennis Cooperative Forestry (McIntire-Stennis) funds.

In fiscal year 2007, CSREES is proposing to distribute a portion of the Hatch Act and the McIntire-Stennis formula programs to nationally, competitively awarded multi-state/multi-institutional projects based on high priority national topics decided by CSREES in consultation with our land grant partners. This new plan for multi-state programming sustains the matching requirement and the leveraging of Federal funds. It also allows institutions to focus on program strengths they identify and sustain through linking local issues to broad national goals. The Agency is eager to work with the agricultural experiment station and university forestry research communities to develop an implementation plan for the expanded multi-state/multi-institutional effort.

CSREES also will continue to distribute a portion of the Hatch Act and McIntire-Stennis funds on the basis of the formula. The requested \$177 million of Hatch Act funds will support research at the SAES related to producing, marketing, distributing, and utilizing crops and resources; enhancing nutrition; and improving rural living conditions. Funds will support research topics such as water and other natural resources, crop and animal resources, people and communities, competition and trade, and human nutrition. In addition, \$22 million of the funding requested for the McIntire-Stennis program will continue to support research related to timber production, forest land management, wood utilization, and the associated development of new products and distribution systems. Both the Hatch Act and McIntire-Stennis programs allow 5 year projects supporting the goal of continuity.

CSREES proposes to eliminate funding for the Animal Health and Disease Program. Alternative funding from the National Research Initiative (NRI) program could be used to support aspects of this program. Recent, large Coordinated Agricultural Project (CAP) grants have supported animal disease issues, such as Johnes Disease and Avian Influenza.

CSREES continues to provide new opportunities for discoveries and advances in knowledge through the NRI program. The fiscal year 2007 budget request of \$247.5

million for the NRI is a strong statement of the importance that the Administration places on competitively awarded grants to advance knowledge for agriculture.

The NRI will continue to support current high priority programs with an emphasis on critical issues. For example, under the NRI CAP, multi-million dollar awards support multi-year large-scale projects to promote collaboration, open communication, and coordinated activities among individuals, institutions, States, and regions to address priority issues of national importance. Under the NRI Animal Biosecurity Program, CSREES is investing funds to support three animal disease CAPs. CAP awards for Avian Influenza (\$5 million/3 years with 18 States involved), Porcine Reproductive and Respiratory Syndrome (\$4.4 million/3 years with 16 States involved), and John's Disease (\$4.4 million/3 years with 21 States involved) are working to accelerate research discoveries and the translation of basic and applied research into significant outcomes that diminish the impact and threat from these diseases. These projects provide a strategic framework of objectives that integrate research, education, and extension specialists representing academia, producers, veterinarians, pharmaceutical and other biologics companies, Federal agencies, State partners, and international institutions.

Under the Applied Plant Genomics Program in the NRI, CSREES supports two CAPs—rice (\$5 million/4 years representing 12 States) and wheat (\$5 million/4 years representing 17 States). Activities under these CAPs are working to bridge the gap between cereal grain genomics and traditional breeding practices. The Project Directors for the CAPs recently met to discuss facilitating synergistic activities across the CAPs that will provide lasting benefits to U.S. agriculture through improved varieties. Also discussed was how the U.S. public breeding programs can capitalize on advances in genomics. The Agency also continues support for a CAP focused on food safety at North Carolina State University.

Expanded partnerships with other Federal agencies on research topics of mutual interest will be possible with the increase in the NRI funding. For example, research on plant genomics, in particular sequencing of the soybean genome, will be supported through a partnership with the U.S. Department of Energy. The research collaboration will substantially contribute to advances in soybean breeding, with great potential to improve the environmental and nutritional quality of the plant, leading to improved efficiency of production, reduced environmental impact, and healthier foods.

The NRI also will support research on animal genomics. Substantial public investment in the Human Genome Project has led to technologies, practices, and knowledge which enable cost-effective research in animal genomics. The considerable similarities of the genomes of livestock species, fish, and birds to that of human will reduce the need for whole genome sequencing. An increase of \$5 million in the NRI to support domestic animal genomics including bioinformatics is requested.

CSREES proposes that \$42.3 million from the Integrated Activities account for programs that focus on water quality, food safety, methyl bromide, organic transition, and pest-related programs be administered through the NRI. This transfer is proposed as a means to streamline the CSREES budget portfolio. Funding for these programs will be sustained at the fiscal year 2006 levels.

Under the NRI, an increase of \$1 million is requested for genomics and biomass/biofuels that focus on the functional genomics and bioinformatics of microorganisms to increase the efficiency of biological conversion of pulp and paper products to bioenergy and biobased products and the development of new products including biologically-based fuels. These efforts will tap into the power of genomics to provide insights into new approaches for converting low value, agricultural feedstocks to high value fuels and products.

An increase of \$12 million is proposed to address emerging issues in food and agriculture biosecurity under the NRI. The requested funding will support research, education, and extension activities on emerging pathogens and antibiotic production for animal protection and biosecurity, and on microbial forensics of food safety pathogens.

In fiscal year 2007 an increase of \$3 million is proposed under the NRI for ecology and economics of biological invasions. The requested funds will support projects that couple the economic predictions of costs of prevention and control with ecological processes that govern the entry, spread, and damage by invasive species.

Under the NRI, an increase of \$3 million is proposed in fiscal year 2007 for plant biotechnology and water security. The funds will support research on methods of modern molecular biology to improve the water use-efficiency of crops, managed forests, and horticulture plants.

In continuing and expanding our efforts for agricultural security and in support of the President's Food and Agriculture Defense Initiative, CSREES, through cooperative efforts with the Animal and Plant Health Inspection Service, has established

a unified Federal-State network of public agricultural institutions to identify and respond to high risk biological pathogens in the food and agricultural system. The network is comprised of 13 State animal diagnostic laboratories and 6 plant diagnostic laboratories, strategically located around the country. These 19 key laboratories are developing a two-way, secure communications network with other university and State Department of Agriculture diagnostic laboratories throughout their respective regions. The diagnostic laboratories are responsible for identifying, containing, and minimizing the impact of exotic and domestic pests and pathogens that are of concern to the security of our food and agricultural production systems. For example, the National Animal Health Laboratory Network (NAHLN) with its 12 founding laboratories in New York, Louisiana, Georgia, Texas, Wisconsin, Iowa, Colorado, Washington, California, Arizona, North Carolina and Florida continued efforts to enhance national preparedness against foreign animal disease appearing in the United States by conducting activities related to Avian Influenza (AI). AI is one of the new high-consequence animal pathogens covered by the NAHLN protocols. In its efforts to increase the ability to respond to outbreaks, NAHLN increased the number of laboratories that can run the real time polymerase chain reaction for AI using a standardized assay and protocol. Annual proficiency testing is required of individuals conducting testing to ensure quality results. The budget proposal requests an increase of \$2.1 million for a total of \$12 million to maintain the current level of diagnostic capabilities across the Nation.

CSREES proposes \$5 million for the Agrosecurity Education Program to support educational and professional development for personnel so strengthen our national capacity to secure the Nation's agricultural and food supply. The program will develop and promote curricula for undergraduate and graduate level higher education programs that support the protection of animals, plants, and public health. The program is designed to support cross-disciplinary degree programs that combine training in food sciences, agricultural sciences, medicine, veterinary medicine, epidemiology, microbiology, chemistry, engineering, and mathematics (statistical modeling) to prepare food system defense professionals. Also proposed is \$2.3 million for the Asian Soybean Rust Program. The funds will provide stakeholders with effective decision support for managing diseases of legume crops, particularly soybean rust, to continue surveillance of sentinel plots.

CSREES continues to expand diversity and opportunity with activities under 1890 base and educational programs, and 1994, insular areas, and Hispanic-Serving Institutions educational programs. In fiscal year 2007, the budget requests an increase of approximately \$1.2 million for both the research and extension 1890 base programs. Funding for our 1890 base programs provides a stable level of support for the implementation of research and extension programming that is responsive to emerging agricultural issues. Funding for the 1994 Institutions strengthens the capacity of the Tribal Colleges to more firmly establish themselves as partners in the food and agricultural science and education system through expanding their linkages with 1862 and 1890 Institutions. Proposed funding for the Resident Instruction Grants for Insular Areas Program will be used to enhance teaching programs at higher education institutions located in U.S. insular areas that focus on agriculture, natural resources, forestry, veterinary medicine, home economics, and disciplines closely allied to food and agriculture production and delivery systems. Continued funding for the Hispanic-Serving Institutions promotes the ability of the institutions to carry out educational training programs in the food and agricultural sciences. This proven path of research, extension, and educational program development rapidly delivers new technologies into the hands of all citizens, helping them solve problems important to their lives.

CSREES also will continue to effectively reach underserved communities through increased support for the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers (OASDFR) Program. CSREES will fund competitive multi-year projects to support outreach to disadvantaged farmers and ranchers by providing grants to educational institutions and community-based organizations to support these groups. Funds for the OASDFR program will encourage and assist socially disadvantaged farmers and ranchers in their efforts to become or remain owners and operators by providing technical assistance, outreach, and education to promote fuller participation in all USDA programs. CSREES requests an increase of about \$1 million for the OASDFR program.

The CSREES higher education programs contribute to the development of human capacity and respond to the need for a highly trained cadre of quality scientists, engineers, managers, and technical specialists in the food and fiber system. The fiscal year 2007 budget provides a \$.8 million increase in the Food and Agricultural Sciences National Needs Graduate Fellowship program. This program prepares graduates to deal with emerging challenges in such areas as agricultural biosecurity

to ensure the safety and security of our agriculture and food supply, natural resources and forestry, and human health and nutrition, including problems related to obesity such as diabetes and cardiovascular health. Other higher education programs will provide important and unique support to Tribal Colleges, the 1890 Land-Grant Colleges and Universities, and the 1862 Land-Grant Universities as they pilot important new approaches to expand their programs.

CSREES is requesting funds to accelerate and innovate the New Technologies for Agricultural Extension (NTAE) to establish an eXtension network which will offer Americans unparalleled access to scientifically-derived and unbiased information, education, and guidance. The fiscal year 2007 budget proposal includes a \$1.5 million increase for the NTAE Program to allow the Cooperative Extension System to make available research-based education offered through eXtension to a technology conscious Nation.

To ensure the highest quality research which addresses national needs within available funding, the fiscal year 2007 budget proposes to eliminate earmarked projects. Peer-reviewed competitive programs that meet national needs are a much more effective use of taxpayer dollars than earmarks that are provided to a specific recipient for needs that may not be national. Based upon its broad scope, including the expanded integrated authority, and proposed funding increase, alternative funding from the NRI could be used to provide a peer-reviewed forum for seeking and assessing much of the work funded through earmarks. For example in the past four years, CSREES supported research in animal identification and/or animal tracking under earmarked projects which fit within the scope of the NRI. In addition, earmarked projects for human nutrition and food safety also could fit within the program areas of the NRI.

The fiscal year 2007 budget proposes changes in the general provisions including increasing the amount provided for the NRI that may be used for competitive integrated activities from up to 22 percent to up to 30 percent. Also proposed is the elimination of the cap on indirect costs for competitively awarded grants. In the past indirect cost rate caps have resulted in recipients' inability to recover legitimate indirect costs, thus penalizing recipients who choose to do business with CSREES. This elimination allows full indirect cost recovery under competitive awards and places CSREES competitive programs on an equal footing with other Federal assistance programs, so that top scientists will be more likely to apply for CSREES grant programs.

CSREES consulted widely in the development of program goals and budget priorities for fiscal year 2007. In discussions with the land-grant university system, forestry researchers, and others, stakeholders expressed their concerns over the approach to expand competitive research grant programs. The President's fiscal year 2007 budget proposal addresses their concerns, and is consistent with the view that the most effective use of taxpayer dollars is through competitively awarded grants that meet National goals. CSREES, in collaboration with university and other partners nationwide, continues to enhance its responsiveness and flexibility in addressing critical agricultural issues. This proposal provides support for research, extension, higher education, and outreach and assistance activities in the food, agricultural, and human sciences that can make a difference in solving problems facing the Nation.

Mr. Chairman, this concludes my statement. I will be glad to answer any questions the Committee may have.

PREPARED STATEMENT OF SUSAN E. OFFUTT, ADMINISTRATOR, ECONOMIC RESEARCH SERVICE

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to present the proposed fiscal year 2007 budget for the Economic Research Service (ERS).

MISSION

The Economic Research Service informs and enhances public and private decision making on economic and policy issues related to agriculture, food, the environment, and rural development.

BUDGET

The agency's request for 2007 is \$82.5 million, which includes increases for two initiatives and pay costs. The agency is requesting an increase of \$5 million to develop an agricultural and rural development information system that will monitor

the changing economic health and well-being of farm and non-farm households in rural areas; and an increase of \$1.6 million to continue the development of an integrated and comprehensive data and analysis framework of the food system beyond the farm-gate that will provide a basis for understanding, monitoring, tracking, and identifying changes in the food supply and in consumption patterns.

AGRICULTURAL AND RURAL DEVELOPMENT INFORMATION SYSTEM

In fiscal year 2007, ERS is requesting an increase of \$5.0 million to fund the Agricultural and Rural Development Information System, to implement a comprehensive data collection and research program that will monitor the changing economic well-being of farm and non-farm households in rural areas. This initiative supports collection of survey data from farm and non-farm households over time to analyze the effects of policy adjustments in rural areas facing specific development issues, such as persistent poverty or substantial out migration. Data and analysis from this Agricultural and Rural Development Information System will be critical to identifying the most successful economic development strategies for different types of rural areas, the adjustments that farm households and rural communities make in response to agricultural policy changes, and the importance of the linkages between farm and non-farm economies in assessing farm and rural policy effects. The initiative also supplies the better and more useful information on the status of farm, market, and rural economics that USDA partners and customers seek.

The \$5.0 million total amount requested would be allocated to four specific sets of activities. The first, collecting longitudinal data from rural households, will involve developing and supporting an integrated set of surveys, which include core components to track critical indicators over time as well as modules on specific topics related to emerging policy issues. The second, collecting longitudinal data from farm households, will build on USDA's Agricultural Resource Management Survey (ARMS). The third will be to expand public internet access to ERS agricultural and rural data. A portion of the initiative funds would be devoted to providing State and local governments, trade and commodity associations, other interest groups, and the public, easy, interactive access to a new Agricultural and Rural Development System. The fourth is to assure research capacity to analyze, interpret and apply new agricultural and rural development information.

Data are not currently available to allow analysts to distinguish the effects of rural development, farm, and agricultural resource programs from one another, and from the myriad of other forces affecting the economic well-being of farm and rural households. The Census Bureau's Census of the Population provides information on rural households within the context of their local area, but it does not include a longitudinal component that allows assessment of individual household response to changing policies and programs over time. The American Community Survey will, in time, provide social and economic data at the census tract level, but it does not use a longitudinal framework to understand individual household change. Other data sources, such as the Survey of Income and Program Participation, have a longitudinal component but do not have sufficient detail or statistical reliability to allow analyses of local rural area household response for specific areas facing specific development challenges.

CONSUMER DATA AND INFORMATION SYSTEM

In fiscal year 2007, ERS is requesting an increase of \$1.6 million to augment the Consumer Data and Information System that was provided funds in fiscal year 2006. New funding will be used to obtain data on consumption of food away from home to improve the understanding of how individuals make food choices. A major change in U.S. food consumption patterns in the last several decades has been the increasing popularity of foods consumed away from home. The importance of data on food-away-home consumption for understanding food choices and nutritional outcomes is growing, as Americans now spend about 50 percent of their total food budget on food-away-from-home in 2004, up from 27 percent in 1962.

The additional funding requested this year supports ERS long-term goals and objectives for research on food choices, including:

- Identifying differences in consumption of food away from home by region and customer/household demographics (such as income, education level, age, and presence of children in the household);
- Measuring the effect of prices of food away from home on food choices, by region and customer/household demographics;
- Assessing how low-income households differ in the away-from-home food choices they make and the prices that they pay;

- Assessing how households' away-from-home food choices change through consumers' life cycle. For example, households with young children tend to favor fast food restaurants over sit-down restaurants. Older Americans are known to eat out less frequently than young adults; and
- Examining the extent by which convenience of eating away from home is impact American's food choices.

USDA officials require timely information on food prices, product movements, and potential consumer reactions to events to effectively make commodity support decisions, provide nutrition education, and ensure the safety of food. The components of the Consumer Data and Information System already implemented with prior years' funding will provide USDA with current food prices, sales volumes, food purchases, a database on consumer characteristics and purchasing behavior, and the ability to quickly survey consumer reactions, knowledge, attitudes, and awareness on a host of issues. For example, we will be able to determine how consumers respond to USDA's nutrition information efforts, such as the Food Guide Pyramid and recommendations to increase consumption of whole grains.

The Consumer Data and Information System has three major components providing intelligence across and within the food and agricultural complex. The Food Market Surveillance Report will provide policy officials with the most up-to-date information on food prices, purchases, and sales data publicly or privately available. This information will improve USDA decision-making and provide data for understanding consumer purchasing behaviors.

The Rapid Consumer Response Module will provide real-time information on consumer reactions to unforeseen events and disruptions, current market events, and government policies. The module question will be asked of members of several proprietary consumer data panels currently maintained by private vendors. The Rapid Consumer Response Survey is awaiting OMB approval.

Using fiscal year 2005 and fiscal year 2006 funding, ERS has continued development of the third major component of the Consumer Data and Information System, the Flexible Consumer Behavior Survey (FCBS). This survey will complement data from the National Health and Nutrition Examination Survey (NHANES) by providing information needed to assess linkages among individuals' knowledge and attitudes about food safety and dietary guidance, their economic circumstances, their food-choice decisions, and their nutrient intakes. Combining the NHANES with this new survey allows analysis of how individual behavior, information, and economic factors affect food choices, dietary status, and health outcomes. The FCBS is scheduled to appear on the 2007–2008 NHANES with research data available in 2009.

ERS CONTRIBUTIONS TO MISSION AREA GOALS

ERS supports the six USDA strategic goals to: (1) enhance international competitiveness of American agriculture; (2) enhance the competitiveness and sustainability of rural and farm economies; (3) support increased economic opportunities and improved quality of life in rural America; (4) enhance protection and safety of the Nation's agriculture and food supply; (5) improve the Nation's nutrition and health; and (6) protect and enhance the Nation's natural resource base and environment.

Goal 1: Enhanced International Competitiveness of American Agriculture

ERS helps the U.S. food and agriculture sector adapt to changing market structures in rapidly globalizing, consumer-driven markets by analyzing the linkages between domestic and global food and commodity markets, as well as the implications of alternative domestic and international policies on competitiveness. ERS economists analyze factors that drive change in the structure and performance of domestic and global food and agriculture markets; provide economic assessment of structural change and competition in the agricultural sector; analyze the price impacts of evolving structural changes in food retailing; analyze how international trade agreements and foreign trade restrictions affect U.S. agricultural production, exports, imports, and income; and provide economic analyses that determine how fundamental commodity market relationships are adjusting to changing trade, domestic policy, and structural conditions. ERS will continue to work closely with the World Agricultural Outlook Board (WAOB) and USDA agencies to provide short- and long-term projections of United States and world agricultural production, consumption, and trade.

In 2006, several initiatives are increasing the timeliness and availability of data and information, while simultaneously saving staff time. We are increasing the transparency of our commodity projections processes, and automating calculations where possible, and embedding them within databases. Our goals are to: (1) make the work transparent, inviting critique from both internal and external users; (2) transition to fewer outlook analysts as retirements near, and (3) increase timeliness

in the release of data. Our redesigned feedgrains database provides a wider range of data with automatic updates from our ongoing commodity analysis reports. A new database on base acres allows users to download and map county-level farm program and planted acreage data for nine major program crops.

Large developing countries—such as China, India and Brazil—are becoming more important to U.S. agriculture. China is one of the top 10 markets for U.S. agricultural exports and is the world's largest producer and consumer of a range of commodities. ERS research continues to examine key factors that will shape the size and pattern of China's agricultural trade: water scarcity, implementation of WTO commitments, changes in Chinese consumers' demand for food, and new directions in agricultural policy and investment in agriculture and rural areas. ERS' China briefing room on our website provides access to a new queriable Agricultural and Economic database containing information on agricultural production, food consumption, price indices, macroeconomic information and industrial output. India's strong economic growth and rising middle class are creating new markets for agricultural products. ERS research examines the policy environment and prospects for growth in key commodity markets, such as cotton, oilseeds, poultry and apples.

Food price determination is increasingly important for understanding domestic and international markets and opportunities to promote U.S. agriculture. ERS food markets research focuses on enhancing knowledge and understanding of food prices, both their objective measurement and how they are set by firms at different stages of the food system. ERS has begun to use micro-level household and store scanner data to measure the impact of changing store formats on food prices in order to focus on the changing economic environment and how these changes could affect customers' retail food purchasing habits.

ERS will continue to work closely with the Foreign Agricultural Service (FAS) and the Office of the U.S. Trade Representative to ensure that ongoing negotiations on the Doha Development Agenda under the auspices of the World Trade Organization (WTO) and regional trade agreements are successful and advantageous for U.S. agriculture. The demands of developing countries for sharp cuts in domestic agricultural policies, along with exemptions that would limit the opening of their markets, serve as stumbling blocks to reaching an agreement in current WTO negotiations. ERS has developed new analytic tools, including its PEATSIM (Partial Equilibrium Trade Simulation) modeling framework, to provide more detailed analysis of the global benefits of trade liberalization. It has also completed studies of important issues affecting developing countries, including preferential trade agreements and forces shaping global cotton markets after the end of the Multifiber arrangement.

Goal 2: Enhanced Competitiveness and Sustainability of Rural and Farm Economies

ERS provides assessment of the effects of farm policy on commodity markets and the food and agricultural sector. For example, the 2005 USDA report, *The 20th Century Transformation of U.S. Agriculture and Farm Policy* provides perspective on the long-term forces that have helped shape agricultural and rural life and considers the extent to which farm policy design has or has not kept pace with the continuing transformation of American agriculture. ERS is also preparing a series of nine commodity background studies to augment information available to policy decision makers.

Changes in U.S. farm structure can have wide-ranging impacts on agricultural productivity, opportunities for farm operators, and the distribution of benefits from government programs. ERS research focuses on two elements of change: the widespread shift of production to larger farms, and the growing use of formal contracts between farmers and buyers, used to guide farm production and marketing decisions. An updated Family Farm report will be released in 2006, as well as an Economic Brief detailing the impact of structural change on the distribution of Federal commodity payments.

ERS recently released a report, using 2003 data, on the growing use of agricultural contracts (Agricultural Contracting Update: Contracts in 2003). For producers, contracting can reduce income risks of price and production variability, ensure market access, and provide higher returns for differentiated farm products. For processors and other buyers, vertical coordination through contracting is a way to ensure the flow of products, obtain differentiated products, ensure traceability for health concerns, and guarantee certain methods of production. But widespread contract use can also limit the efficiency of cash markets, and under certain circumstances contracts can allow buyers to extend market power. A September, 2005 ERS report (*Did the Mandatory Requirement Aid the Market? Impact of the Livestock Mandatory Reporting Act*) examined the effects of expanded price reporting requirements on contract and cash markets for cattle.

Current research is examining the effects of contract use in hog, dairy, and poultry sectors. For example, ERS research has found that marketing contracts between packers and producers can facilitate industry efforts to address pork quality needs by reducing measuring costs, controlling quality attributes that are difficult to measure, facilitating adaptations to changing quality standards, and reducing transaction costs associated with relationship-specific investments in branding programs.

Organic farming continues to be one of the fastest growing segments of U.S. agriculture and can potentially enhance environmental protection, as well as economic opportunities for producers. Appropriations received in fiscal year 2005 and fiscal year 2006 will enable ERS to continue to explore in greater depth the market for organic products and the performance of organic farm sectors. In 2005, ERS hosted an interagency USDA workshop on organic agriculture which assessed producer options and obstacles in adopting organic farming systems, and evaluated new developments in organic marketing and technology. Also in 2005, ERS began adding a targeted sample of organic producers to the USDA Agricultural Resources Management Survey (ARMS). The first of these enhanced ARMS surveys, targeting organic dairy producers, will be administered in 2006, and will be followed by an over sample of organic soybean producers in the subsequent ARMS survey. Survey data for both organic and conventional operations will enable, for the first time, a side-by-side comparison of the profitability, productivity, energy efficiency, and other economic characteristics of these farms.

The Agricultural Resource Management Survey (ARMS) helps support important estimates, analyses, and research produced by ERS. Two key uses of ARMS are to underpin estimates of income and value-added that are provided to the Department of Commerce for use in preparing the U.S. national accounts, and to produce estimates of income for different types of commercial-size farm businesses, such as those that produce program crop commodities, that were required by the Congress in the 2002 Farm Bill. Data from ARMS are used in a collaborative effort between ERS and the National Agricultural Statistics Service to measure annual production expenses in U.S. agriculture.

A special emphasis of ARMS in 2006 is to measure use of purchase practices and strategies by farm managers in acquiring production inputs, including energy-based inputs such as fertilizers, chemicals, and fuels. These data will be used to help provide a broader understanding of how changes in inputs costs affect different types of farms and areas of the country. Additional funding provided for ARMS in fiscal year 2003 was used to increase the number of farm businesses included in the ARMS sample and to more effectively disseminate annual survey results to data users. In the 2005 calendar year survey, now in the field to be enumerated, about 34,000 farmers will be interviewed nationwide. The larger sample for ARMS gives us greater confidence in income and financial measures produced for the and geographic areas, and for types and sizes of farms engaged in U.S. agriculture. ERS continues to focus on improving the dissemination of ARMS data so that annual survey results are more readily available and easily accessible to data users, while assuring that sensitive data are not disclosed. The web-based, secure ARMS data retrieval and summarization tool, implement in late 2004, has now been through a successful update with release of the latest annual data in November, 2005. About 700 unique data users access ARMS results through this web-based outlet each month.

Goal 3: Support Increased Economic Opportunities and Improved Quality of Life in Rural America

ERS assesses rural needs by examining the changing demographic, employment, education, income, and housing patterns of rural areas. Data from the 2000 Census and other Federal information sources provide the most up-to-date information on the current conditions and trends affecting rural areas, and provide the factual base for rural development program initiatives. In 2006, the agency is continuing its series of publications that report current indicators of social and economic conditions in rural areas for use in developing policies and programs to assist rural people and their communities. *Rural America at a Glance: 2006* and *Rural Employment at a Glance*, designed for a policy audience, will summarize the most current information on these topics.

ERS research focuses on the determinants and consequences of critical themes in contemporary rural America, including changing population composition and industrial restructuring. One emerging rural population trend is baby boomer migration as they retire. The oldest members of the baby boom cohort are now 60 years old, just entering the stage in their lives when they tend to migrate for retirement. The growth of baby boomer populations in rural and small town America depends on demographic, natural amenity, housing market, urban proximity, and economic factors

affecting their migration flows. ERS will publish a report in 2006 analyzing the impact of these factors during the 1990s, which will help policymakers and planners better anticipate the likely increase in migration of baby boomers into rural areas over the next 20 years.

ERS is examining the effects of industrial change on the geography of low-skill employment. Today many rural labor market areas find themselves in the midst of industrial transformation as regional, national, and global forces reshape the geography of economic activity. ERS research is addressing how the transformation of rural America from an economy based on manufacturing and extraction to one based on services and amenities has changed the prospects for workers with limited skills and education. A recent ERS study analyzed trends in rural low-skill employment in the 1990s and identified the industrial and occupational components of this change. The findings suggest that investment in education and training, rather than industrial targeting, is a more effective approach to raising skill levels in the rural economy. In 2006, ERS will publish a second report looking at the regional variation in the rural shift toward a service economy, and in the effects of this shift on low-skill labor demand. The expected result is a better understanding of how global economic forces, including broader trade liberalization and rapid technological change, can affect rural communities and how Federal and local responses can assist in the resulting restructuring.

Goal 4: Enhance Protection and Safety of the Nation's Agriculture and Food Supply

In response to increased risks to the Nation's agriculture and food supply due to bio-terrorism, ERS embarked on an ambitious project known as Geo-Spatial Economic Analysis (GSEA). The GSEA system merges an extensive Geographic Information System with the analytical expertise of ERS's economists. The Security Analysis System for U.S. Agriculture (SAS-USA), which is being updated and enhanced in 2006 under a cooperative agreement with the Massachusetts Institute of Technology, systematically ties all food supply processes from farm production, food manufacturing, distribution of food products, to food consumption in every region of the country and other non-agricultural sectors, such as energy and services. The GSEA system is designed to serve as a platform for collaborative analysis across agencies in USDA and with appropriate groups in FDA and the Department of Homeland Security (DHS). These capabilities mean that emergencies can be managed efficiently and expeditiously by assessing vulnerabilities and predicting outcomes. The first simulation system prototype will be completed this year as part of a joint project with the Army Corps of Engineers, the Tennessee Valley Authority, and Oak Ridge National Lab to improve our ability to measure the economic consequences in the food and agricultural industries caused by transportation disruptions. In support of broad USDA initiatives such as the National Plant Disease Recovery System, the GSEA system will serve as a tool to improve economic assessments of crop and animal disease outbreaks using alternative control strategies.

As part of several national homeland security activities, ERS continues to develop and expand the capacity to assess the impact of accidental and intentional disruptions to our food and agricultural system. This year ERS will provide access to the GIS platform for selected staff in USDA and other government agencies. The GIS platform allows analysts to quickly manage the county-level crop, livestock, demographic and economic data needed to provide scope and context in the event of an emergency. ERS staff are prepared to conduct the complex economic analysis needed to assess the cost of securing our food supply, which includes protecting production, processing, distribution, and consumption of food and agricultural products. ERS is working with the Homeland Security Office (HSO), Office of Risk Assessment and Cost Benefit Analysis (ORACBA), Animal and Plant Health Inspection Service (APHIS), and the Food and Drug Administration (FDA) to improve tools for the analysis of disruption and disease mitigation strategies that require both sound biological and economic analysis.

ERS has become well-known for its pioneering estimates of the societal costs associated with foodborne illnesses due to E. coli and other known pathogens. ERS and researchers from Harvard and the University of Wyoming are collaborating to develop new methodologies for more accurately eliciting and measuring the value of reductions in health risk associated with foodborne pathogens. This project applies state-of-the-art valuation methodologies to measure the benefits of improving food safety. A survey conducted in 2004 presented respondents with information on duration and severity of foodborne illness and asked respondents how much they would be willing to pay for a food with lower risk of foodborne illness. Another survey conducted in 2005 provided respondents with information about the likelihood of foodborne illnesses and asked them about their food consumption and food safety

practices. Analysts will explore the linkage between food choices and food safety information using the information obtained by this survey.

In the event that unsafe food enters the marketplace, public health officials and food safety regulators ultimately rely on records maintained by private industry and retailers to track the manufacture and distribution of that food. Privately maintained traceability bookkeeping records provide investigators with information on the extent and distribution of a contaminated product—and on how to remove such a product from distribution channels efficiently. The strength of private traceability systems and the readiness of the food industry to track and recall a contaminated product is important for safeguarding the Nation's food supply. In 2006, ERS will continue work with agricultural economists from the University of Arkansas to investigate how various food companies in different industries handle product recalls, the operation of designated recall teams, and the frequency and results of mock recalls. The research will examine the type and scope of information collected from auditing and certification activities, characteristics of firms with recall practices, and the proportion of firms in given sectors participating in auditing and certification activities.

Goal 5: Improve the Nation's Nutrition and Health

ERS research has a major focus on the economic dimensions of obesity, including understanding the societal costs of obesity, explaining obesity trends among different demographic and income groups, and assessing the benefits and costs of alternative options for influencing Americans' food choices and dietary behaviors, including roles for nutrition education and Federal food and nutrition assistance programs. ERS investigated consumers' likely response to a tax on snack foods a public health issues generated by rising U.S. obesity rates. Findings suggest that the impacts on dietary quality from the tax are small and negligible at the lower tax rates. If taxes were earmarked for funding information programs, as several proponents suggest, taxes would generate a revenue stream the public health community could use for nutrition education.

In 2006, ERS is investigating the factors that influence consumers' food choices when eating away from home using the NHANES data. This research will focus on discovering consumer preferences, such as convenience and entertainment that compete with healthy eating. Information about these factors help social marketers design effective campaigns to influence consumers' away from home eating behavior. Whether the poor pay more for food than other income groups matters to their nutrition and health; therefore, the operating costs of the stores at which they shop matter. An ERS study found overall operating costs of stores with high food stamp redemption rates are not significantly different from those of stores with moderate redemption rates. If the poor do pay more, factors other than operating costs are likely to be the reason.

ERS is currently conducting a study of the economic factors affecting the cost of infant formula and rebates issued to the Special Supplemental Nutrition Program for Women, Infants, and Children Program (WIC). Over half of all infant formula sold in the United States is purchased through USDA's Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). In fiscal year 2004, WIC State agencies obtained \$1.6 billion in rebates from infant formula manufacturers for formula purchased through WIC. In recent years, some States awarding new infant formula contracts have seen a marked decrease in the size of the rebate. As a result, concern has been raised that the cost to the States of providing infant formula to WIC participants is increasing, a result that if sustained, could have far-reaching negative implications for the WIC program. A final report will be released in 2006.

ERS continues to monitor U.S. households' food security—their access to enough food for active, healthy living—and the extent and severity of food insecurity. ERS funds a national food security survey, conducted by the Census Bureau, and reports annually on the food security of the Nation's households. The Committee on National Statistics (CNSTAT) of the National Academy of Sciences will complete its review, funded by ERS and USDA's Food and Nutrition Service, of the methods and procedures that underlie the current measures of food security. ERS will lead USDA's work to enhance and strengthen these methods for monitoring, evaluation, and related research purposes pursuant to CNSTAT findings and recommendations.

As part of our effort to improve the timeliness and quality of the Department's food consumption data, in 2003 ERS launched an interagency effort to develop a proposal for an external review of USDA's food consumption data needs and gaps. Enhancements to the food consumption data infrastructure are critical to understanding and addressing many market and policy issues in the Department. The interagency effort led to the funding of a review by the National Research Council's

Committee on National Statistics. The Committee issued its final report in 2005, which included several recommendations. An interagency working group has been established to take responsibility for the systematic development and use of diet and food consumption data to address policy and research questions of the Federal Government, as recommended by the Committee. ERS is participating in this working group, which will consider priorities and methods for obtaining additional food and nutrition-related data in the National Health and Nutrition Examination Survey. As recommended by the committee, ERS is also evaluating the use of data on food purchases, prices, and consumption from proprietary retail scanner systems, household scanner panels, and household consumption surveys. This evaluation will examine the quality of the data, consider ways to reduce the cost of access to the data, and determine the highest priority applications for the information.

Goal 6: Protect and Enhance the Nation's Natural Resource Base and Environment

ERS continues to provide comprehensive information to public and private users on programs in the Conservation Title of the Farm Security and Rural Investment Act of 2002. The ERS report, *Flexible Conservation Measures on Working Land: What Challenges Lie Ahead?* released in 2005, deals with the complexities associated with the design of working-land payment programs. Program design and implementation will largely determine the extent to which environmental goals are achieved, and whether they are achieved cost-effectively. Empirical analysis also shows how the environment, commodity prices, and farm incomes could be affected by alternative designs.

In the course of the production of food and fiber, agriculture also produces many by-products (positive externalities) such as open space, recreational amenities, scenic views, groundwater recharge, and wildlife habitat. Historically, the standard policy practice has been to address each externality through a separate policy instrument. However, when the transaction costs of administering policies (e.g., information gathering, contract formulation, enforcement) are positive, using one instrument to address each externality or objective may not be optimal. Using an empirical analysis focusing on the CRP, the ERS report *The Multiple Objectives of Agri-Environmental Policy*, to be released in 2006, explores the extent to which environmental attributes may be jointly produced, e.g., efforts to reduce soil erosion may also reduce nutrient runoff and increase soil carbon, with implications for simultaneously targeting multiple environmental and cost objectives.

Furthermore, applying environmental policies in an uncoordinated fashion fails to account for interactions among environmental mediums (i.e., air, land, water). This can result in conflicting policies, in that addressing one environmental problem can make another worse. The ERS report, *Manure Management for Multimedia Environmental Improvement: A Comparison of Single Media versus Multi-Media Policy Optimization*, released in 2005, provides a concrete example of the tradeoffs of alternately and simultaneously meeting air and water quality objectives, in terms of farmers' costs, production decisions, and environmental indicators, by focusing on livestock and poultry production. Among the results in the report is that, if enacted, restrictions on ammonia emissions from concentrated animal feeding operations could increase the cost of meeting Clean Water Act regulations for spreading manure.

In 2006, ERS will release an update of its popular *Agricultural Resources and Environmental Indicators* report, which describes trends in resources used in and affected by agricultural production, as well as the economic conditions and policies that influence agricultural resource use and its environmental impacts. Each chapter provides a concise overview of a specific topic with links to sources of additional information.

In fiscal year 2005, ERS continued the Program of Research on the Economics of Invasive Species Management (PREISM) that was initiated in fiscal year 2003. PREISM supports economic research and the development of decision support tools that have direct implications for USDA policies and programs for protection from, control/management of, regulation concerning, or trade policy relating to invasive species. Program priorities have been selected through extensive consultation with APHIS, the Office of Budget and Program Analysis (OBPA) and other agencies with responsibility for program management. In 2004 and 2005, APHIS used an ERS-supplied pest ranking decision tool to determine which pests would be on its Federal-State Cooperative Agricultural Pest Survey list, making transparent the basis for selecting the pests for which State cooperators could receive targeted pest surveillance and detections funds. The recent and rapid spread of the pathogen, soybean rust (SBR), in South America prompted ERS, in April 2004, to publish a study of the potential economic impacts and policy impacts of its windborne entry into the United States, *Economic and Policy Implications of Wind-Borne Entry of Asian Soy-*

bean Rust into the United States. USDA used this study to refine rapid response strategies to SBR entry, which was confirmed by APHIS in November 2004. ERS built on this work to examine the value to producers of USDA's coordinated framework to detect and report the presence of Asian soybean rust in different producing areas in *The Value of Plant Disease Early-Warning Information: USDA's Soybean Rust Coordinated Framework*, to be published in 2006.

In addition to ERS-led analyses of invasive species issues, PREISM has allocated about \$3.6 million in extramural research cooperative agreements since fiscal year 2003 through a peer-reviewed competitive process. These agreements and their accomplishments through 2005 are documented in a new report, *Program of Research on the Economics of Invasive Species Management: Fiscal 2003–2005 Activities*. PREISM-funded projects are developing analytical tools to address Federal and State decision issues such as trade regulation, design and choice of exclusion policies, and the selection of options or strategies to manage plants pests and animal diseases. For example, researchers from Virginia Polytechnic Institute developed a framework and assisted APHIS in analyzing the impacts of a trade regulation to allow imports of avocados from approved orchards and packers in the state of Michoacan, Mexico. The economic model, analysis, and responses to public comments were published along with the new avocado regulation in the *Federal Register* (Nov. 30, 2004). To share and review progress made by cooperators who received PREISM funding, and to provide a forum for dialogue on economic issues associated with agricultural invasive species, ERS organized workshops in 2004 and 2005, each with about 100 attendees from academia and Federal agencies. Among the projects funded in fiscal year 2005 were studies of the value of animal traceability systems in managing contagious animal diseases, the economic effects of phytosanitary barriers to U.S. seed exports, and the benefits and costs of policy options to manage risks associated with commercial imports of non-native nursery stock.

CUSTOMERS, PARTNERS, AND STAKEHOLDERS

ERS shapes its program and products principally to serve key decision-makers who routinely make or influence public policy and program decisions. This clientele includes White House and USDA policy officials and program administrators/managers; the U.S. Congress; other Federal agencies, and State and local government officials; and domestic and international environmental, consumer, and other public organizations, including farm and industry groups interested in public policy issues.

ERS depends heavily on working relationships with other organizations and individuals to accomplish its mission. Key partners include: NASS for primary data collection; universities for research collaboration; the media as disseminators of ERS analyses; and other government agencies and departments for data information and services. Examples of successful partnerships with other agencies include conservation policy design (NRCS), creating a component to the National Health and Nutrition Examination Survey (FNS, Center for Policy and Promotion, along with the Department of Health and Human Services), and the economics of invasive species management (APHIS). ERS augments its research capacity with 93 cooperative agreements, 14 research grants, and 26 Memorandums of Understanding (MOUs).

CLOSING REMARKS

I appreciate the support that this Committee has given ERS in the past and look forward to continue working with you and your staff to ensure that ERS makes the most effective and appropriate use of public resources. Thank you.

ADDITIONAL COMMITTEE QUESTIONS

Senator BENNETT. Thank you. Thank you all for your testimony. We will have some written questions for you, but we appreciate your service and appreciate your appearing here today.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

CAPITAL SECURITY COST SHARING PROGRAM

Question. The Department of State requires all agencies with an overseas presence in U.S. diplomatic facilities to pay a share of costs through the Capital Security Cost Sharing Program. The fiscal year 2007 budget request for the Foreign Agricultural Service (FAS) includes \$2.9 million for this program. What assurances have you received from the State Department that FAS is paying for space that they actually occupy? Is the agency currently paying for space in facilities where they do not have a presence?

Answer. The State Department has not provided any specific assurances that FAS will actually occupy the space for which we are billed; however, they are working very closely with the affected agencies. Currently, the State Department depends on several databases and a data call issued to Posts to collect personnel data. Once the data is collected, FAS reviews the results and verifies each position. If the State Department numbers differ from ours, we will file an appeal.

The fiscal year 2007 Capital Security Cost Sharing Program is estimated to require an additional \$2.9 million over the fiscal year 2006 costs for a total of \$6 million.

RISK MANAGEMENT AGENCY—CROP INSURANCE

Question. The fiscal year 2007 budget request includes two new legislative proposals for the crop insurance program. One proposal would tie farm payments to the purchase of crop insurance protection at 50 percent or higher of their expected market value. The other proposal would allow for a new participation fee that would generate funding for information technology improvements. Please explain both legislative proposals.

Answer. The first legislative proposal would provide savings to reduce the Federal deficit while increasing participation in the Federal crop insurance program. The proposal contains several key features that, in combination, are expected to save about \$140 million on an annual basis. The proposal is identical to last year's deficit reduction proposal which was not enacted by Congress. The proposal's specifics are summarized below.

- The proposal would require any farmer that receives a Federal commodity payment for his/her crop to buy crop insurance at a minimum coverage level of 50/100. This is intended to ensure farmers have adequate protection in the event of a natural disaster without resorting to ad hoc disaster assistance.
- The proposal reduces premium subsidies by stated percentages points for buy-up coverage levels.
- The proposal modifies the administrative fee on CAT to equal the greater of \$100 or 25 percent of the imputed CAT premium, subject to a maximum fee of \$5,000. This change would make the administrative fee more equitable between small and large producers.
- The proposal would also lower the imputed CAT premium rate by 25 percent.
- Finally, the proposal reduces the A&O reimbursement on all buy-up coverage by 2 percentage points and increases the net book quota share to 22 percent, but provides a ceding commission to the companies of 2 percent.

The second proposal is to provide the authorization for a participation fee. The participation fee would be used to help fund the modernization and maintenance of the Risk Management Agency's computer systems. The proposed fee would initially be used, beginning in 2008, to fund modernization of the existing information technology (IT) systems and would supplement the annual appropriation provided by Congress. Subsequently, the fee would be shifted to maintenance and would be expected to reduce the annual appropriation. The participation fee would be charged to insurance companies participating in the Federal crop insurance program; based on a rate of about one-half cent per dollar of premium sold. Because it is the companies that will most benefit from better, more advanced computer systems, it is reasonable that they contribute to the modernization and maintenance of these systems. The fee is expected to generate an amount not to exceed \$15 million annually.

Question. Will the implementation of the proposal to tie payments to higher levels of crop insurance eliminate the need for ad hoc disaster assistance to farmers?

Answer. Much of the demand for ad hoc disaster assistance is believed to be driven by producers who do not purchase crop insurance, or who purchase catastrophic (CAT) coverage. CAT coverage provides a maximum indemnity of only 27.5 percent in the event of a total loss. The low coverage level for CAT has produced significant pressure for additional relief. Linking eligibility for farm program payments to the purchase of buy-up levels of crop insurance should mitigate some of the demand for

ad hoc disaster assistance as a much larger percentage of the losses experienced by producers will be covered by the Federal crop insurance program.

Question. Also, in regard to the one half cent per dollar on premiums, when was the last time this type service fee was increased or has the cost of participating in the program been set for a number of years?

Answer. The fiscal year 2007 budget proposes a “new” participation fee designed to help pay for the modernization and maintenance of the Risk Management Agency’s computer systems. The participation fee to be paid by insurance companies, will generate funds estimated to be consistent with similar past Agency budget requests. The participation fee will initially supplement the existing appropriation to support improved IT systems for the many new programs and program enhancements occurring within the Federal crop insurance program. Modernization is expected to take about 2 years to complete, after which the participation fee will be available to reduce the need for appropriated funding. The Federal crop insurance program has seen substantial growth over the past several years, yet the Agency’s IT budget has remained constant. Modernization of the RMA IT system is critical in light of the existing systems reaching the end of their expected useful life. The modernization system will provide substantial benefits to the participation insurance companies and will improve RMA’s ability to comply with Congressional mandates regarding data mining and data reconciliation/data sharing with the Farm Service Agency.

CODEX AND TRADE CAPACITY BUILDING

Question. USDA has publicly stated that the vitality and science based independence of the United Nations standard setting organizations under FAO, specifically Codex Alimentarius and the International Plant Protection Convention (IPPC) are critical to advance U.S. agricultural trade objectives. A strong American policy presence within these organizations is important to effectively represent U.S. agriculture interests. Yet, concern has been raised by the U.S. industry that the EU policy personnel, and consequently the EU influence, in those organizations is far greater than the United States. For example, I understand that of the 100 Associate Professional Officers (APOs) at FAO, only one is from the United States. Can you speak to this issue within the context of your \$1.5 million budget request for trade capacity building and explain how the requested budget is intended to address this stated imbalance.

Answer. It is critical to place Americans in key positions within international bodies like the CODEX and IPPC where they can influence policies in crucial areas such as standard-setting. These bodies are essential for implementing the Doha Development commitments. The APO program is a useful tool for placing more Americans in international organizations. Currently, the Netherlands funds about 30 APOs, Germany 11, Italy 9, and Spain 8. The advancement of science-based, decision-making practices in agricultural trade is a well known U.S. priority. The APO program, operating within organizations like FAO, not only helps to increase U.S. influence in these bodies, but it also assists developing member countries to build capacity to better participate in standard-setting bodies, comply with international trade agreements, and engage as full partners in global trade.

Part of the \$1.5 million requested would be used to expand the APO program and place at least one APO in the IPPC or CODEX secretariats, where the United States currently has no representation. This would not only allow the United States to quickly place competent Americans in these increasingly important secretariats, but past experience has shown that the APO program can also leverage additional resources from the international organizations themselves as well as from other member countries. For example, USDA provided \$500,000 in funding for two APO’s to develop a pilot International Food Safety, Animal and Plant Health portal at FAO. This initial funding has leveraged additional funding from FAO, the Netherlands, Norway, and the Standards and Trade Development Facility. The portal was launched at the 2nd Global Forum of Food Safety Regulators in Bangkok in 2004. It provides a single electronic access point for official information which increases transparency in SPS measures and improves national laws and regulations across the sectors of food and animal and plant health.

Another way USDA influences CODEX is through leadership on the CODEX Commission as well as chairing and hosting various Committee meetings. Ms. Karen Hulebak of USDA’s Food Safety Inspection Service (FSIS) was elected this year to serve as a Codex Commission vice-Chair. Also, the U.S. Codex Office hosts meetings for three Codex Committees—the committee on Food Hygiene, which FSIS also chairs; Committee on Residues of Veterinary Drugs and Food; and the Committee on Processed Fruits and Vegetables. In addition, FSIS provided an employee on a temporary duty assignment for a year and a half to the Codex Secretariat, who pro-

vided secretarial support to the group of consultants making recommendations on Codex committee structure and mandates, monitored contracts to translate standards into Chinese and developed and edited FAO/Codex publications (e.g. "Understanding Codex").

RESOURCE CONSERVATION AND DEVELOPMENT PROGRAM

Question. The fiscal year 2007 budget proposes to fund the Resource Conservation and Development program at \$25,933,000. This is a reduction of \$25,971,000 and 230 staff years. How was this level of funding and staff years determined? What is your plan to allocate RC&D coordinators? Will you evaluate the needs of each council before allocating RC&D coordinators? Since many of the sponsors of these councils are local governments, how will this budget affect USDA's relationship with rural county commissioners and mayors?

Answer. The fiscal year 2007 President's Budget recognizes the important role RC&D coordinators and councils play in protecting the environment in a way that improves the local economy and living standards. USDA's goal is to improve Federal efficiency and reduce spending. The rationale for the RC&D proposal reflects the belief that many councils will have the capacity to be more autonomous by fiscal year 2007. An assessment leading up to the proposal included a review of current RC&D Coordinator duties and responsibilities to find ways to increase efficiency and reduce costs without reducing effectiveness. Geographic considerations for remoteness and very large distances were included in the overall proposal. The Budget assumes, on average, that RC&D coordinators will serve multiple RC&D areas. Large geographic distances and complexity in service area will be taken into consideration.

NRCS is updating its analysis on the staffing impacts associated with the President's Budget proposal. At the time the Budget proposal was initially developed, the Agency estimated that up to 225 current RC&D coordinators would need to be re-assigned, without counting potential retirements.

The plan to provide assistance through a federally funded RC&D coordinator to each RC&D Council takes into consideration three different factors. First, NRCS will conduct a business analysis that takes into consideration current geographic considerations for remoteness and very large distances to see if there could be some effectiveness gained through this analysis. In addition, it is expected that some RC&D coordinator positions would become vacant due to attrition. Over the next 5-years, more than half the Federal workforce is eligible to retire. This will create opportunities to once again assess effectiveness and service needs. And lastly, there will be many opportunities for promotions within the agency for existing RC&D coordinators. RC&D employees possess a variety of highly skilled, highly desirable, multi-disciplinary backgrounds and would have many opportunities for promotion to other positions within the Agency. This again would provide the Agency the opportunity to consider service and effectiveness criteria on a case-by-case basis.

NRCS Regional Assistant Chiefs will work closely with State Conservationists throughout their regions. Parameters for the number of positions per State and Region will include an understanding of the geographic attributes and needs associated with serving multi-jurisdictions within the region, including the needs of each council.

USDA will continue to have a strong working relationship with rural county commissioners and mayors. For several years, USDA has been working with the National Association of RC&D Councils (NARC&DC) to increase council capacity by providing resources, training and expertise. By fiscal year 2007, many councils will be ready to take a more active and autonomous role in addressing local concerns identified in their area plans.

Examples of council capacity building tools used and/or available include:

Publication of a manual for RC&D Council members entitled: "Guidebook For RC&D Directors." This manual is designed to help Council members carry out their personal and corporate responsibilities in governing the RC&D area. This publication is available in hard copy and can be downloaded from the NARC&DC website: www.rcdnet.org.

Training courses with accompanying information that include:

- RC&D (A Primer)
- What, Why & How (Basic Roles and Responsibilities)
- Organizational Capacity Building
- Nonprofit Financial Management
- Strategies for Stronger Associations
- Hiring 101

Development, publication, and dissemination of guidelines for rural communities to use to recognize and respond to drought conditions.

National and regional workshops for RC&D Councils to increase diversity from underrepresented individuals and groups in area plan development and implementation.

National workshop or "Forum on Entrepreneurial Development" with an emphasis on meaningful community economic development and disseminate the information to RC&D Councils.

National conference on the utilization of alternative energy and disseminate information to RC&D Councils.

WATERSHED PROJECT BACKLOG

Question. Please provide the status of the watershed project backlog assessment that Bruce Knight mentioned in testimony in December 2005 before the House Committee on Agriculture. How long will it take to complete this assessment? How much will this assessment cost? Which account will fund this assessment?

Answer. The current watershed project unfunded list totals \$1.8 billion. The funding provided for fiscal year 2006 will fund projects where sponsors have acquired the necessary land rights and permits to proceed with construction. In addition, there are some projects on this list categorized as active that have been on the records for 40 years or longer. Clearly it is time to work with local sponsors to assess the viability of each individual project.

NRCS is committed to working with local project sponsors to determine more accurately the viability of the potential watershed project unfunded list. NRCS will assess the viability of unfunded projects in two steps. First, we will use internal databases along with employee and partner knowledge to determine which projects are clearly active and viable. NRCS identified watershed projects that have not had requests for implementation funding for the last 2 years or where the NRCS state water resource long range plans do not indicate planned implementation activity over the next 3 to 5 years. Second, for projects that are not clearly active or viable, the sponsors will be contacted to establish their continued interest in project implementation. The sponsor's role in completing this effort will be critical. Upon mutual agreement with the project sponsor, adjustments to NRCS's watersheds database will be completed by each State to reflect changes agreed upon with regard to project viability. This effort is currently underway and will be completed by June 2, 2006.

The staff time associated with this effort will be minimal. To date most of the assessment work has been completed through existing program manager knowledge, phone calls and record checks. Depending on the sponsor, additional individual case investigations for the assessment could be completed with Watershed Surveys and Planning, and/or Conservation Technical Assistance funds.

RAPID WATERSHED ASSESSMENTS

Question. How many watersheds have undergone the rapid watershed assessment? In which states? In total how many watersheds will go through these assessments? How much has been spent on these assessments? From which account(s)? How have these assessments improved conservation? Please give examples. How much will be spent in fiscal year 2007 on these assessments?

Answer. Thirteen watersheds have been completed using the rapid watershed assessment (RWA) approach in California, Oregon, and Idaho. Georgia and Ohio have developed assessments similar to RWAs. Approximately \$390,000 has been spent on these assessments.

Individual states and local stakeholders decide if they will conduct RWAs. NRCS currently anticipates the average cost of completing a single RWA on an 8-digit hydrologic unit to be in the range of \$25,000 to \$50,000. NRCS plans to mainly use Conservation Technical Assistance Program funding to complete RWAs.

NRCS has been active with a variety of local, State and Federal agencies as well as non-government organizations in developing RWAs in the Klamath Basin. Through the use of rapid watershed assessments, NRCS and stakeholders have more efficiently targeted specific conservation measures to specific watersheds, ensuring the best use of available program funds for securing permanent solutions to the issues related to the quality and quantity of water.

The Upper Klamath Basin includes 271,700 acres of irrigated agriculture. Based on a series of rapid watershed assessments, NRCS determined that approximately 260,500 acres of these irrigated lands need some level of conservation treatment including improvements to existing irrigation systems. Also identified in the RWAs, the Lower Klamath Basin has approximately 41,000 irrigated acres needing treatment to improve irrigation water management. Through the RWA process, local

landowners were able to effectively address these conservation issues and identify potential funding sources for implementing irrigation improvements.

NRCS's Upper Klamath Rapid Watershed Assessment concluded improving water quality and riparian habitat in Upper Klamath Lake and its tributary streams would provide the greatest benefits to the Endangered Species Act listed Shortnose and Lost River suckers. As a result of the RWA, irrigation improvement practices were identified that would have an impact in reducing the amount of warm, nutrient rich irrigation tailwater that return to area streams. It identified additional wetland and riparian habitat that needed restoring around the lake or along its tributary streams, resulting in clean, cool water as well as spawning and rearing habitat for endangered suckers.

Funding decisions have not been made for fiscal year 2007 regarding the completion of additional RWAs.

COMMODITY SUPPLEMENTAL FOOD PROGRAM (CSFP)—PROGRAM ELIMINATION

Question. The budget request eliminates the Commodity Supplemental Food Program, which serves 32 States, 2 Indian reservations, and the District of Columbia. The elimination of this program results in a \$108 million reduction from the fiscal year 2006 appropriation. Please explain why you chose to eliminate this program. What will the participants in CSFP do if the program is eliminated?

Answer. The President's fiscal year 2007 budget request proposes to discontinue CSFP operations and transition eligible CSFP participants to other nutrition assistance programs such as the Food Stamp Program (FSP) and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program). The CSFP is a relatively small program which operates in limited areas of 32 States, two Indian reservations, and the District of Columbia. In an era of fiscal constraint, we face a difficult challenge with regard to discretionary budget resources, and must ensure that those limited resources are targeted to those programs that are available to needy individuals and families, wherever they live.

If Congress adopts the budget request, we will work closely with CSFP State agencies to ensure that any negative effects on program participants are minimized and that they are transitioned as rapidly as possible to other nutrition assistance programs for which they are eligible.

We are requesting \$2 million to provide outreach and to assist individuals to enroll in the FSP. We also propose that elderly participants who leave the CSFP upon the termination of its funding and who are not already receiving FSP benefits will be eligible to receive a transitional benefit worth \$20 per month ending in the first month following enrollment in the FSP under normal program rules, or 6 months, whichever occurs first. CSFP women, infants, and children participants who are eligible for WIC Program benefits will be referred to that program as appropriate.

FOOD STAMP PROGRAM—PARTICIPATION

Question. The budget request anticipates declining participation in the Food Stamp Program. Specifically, overall participation is expected to decrease by 1.1 million in fiscal year 2007. Can you take a moment to explain why participation is declining and do you expect these reductions to continue?

Answer. One of the key strengths of the Food Stamp Program is its ability to adjust automatically to changing economic conditions. The number of participants generally rises as the economy weakens and unemployment and poverty increase, and falls as the economy grows. Between January 2004 and January 2006, the unemployment rate fell from 5.7 percent to 4.7 percent, and the number of people working increased. In 2005, program participation began to flatten before the Gulf Coast hurricanes of the fall. As a result, we expect the number of food stamp participants to decline between 2006 and 2007. We currently project additional reductions through 2009, after which food stamp participation is projected to be fairly flat.

SPECIAL SUPPLEMENTAL PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)— LEGISLATIVE PROPOSAL

Question. The fiscal year 2007 budget request includes a legislative proposal to cap State nutrition services and administration (NSA) grants at 25 percent. A savings of \$152 million is assumed in the budget for this proposal. Please explain this proposal. What is the current NSA cap, and how will enacting this proposal further the goals of the WIC program? If the legislative proposal is not enacted, does the budget request fully fund the WIC program?

Answer. The cap on WIC NSA funding will be applied at the national level. In other words, the funds available from the WIC appropriation for grants to State agencies will be divided into two components: 75 percent of the available funds will

be released to WIC State agencies as food funds and 25 percent of the available funds will be for NSA. The requested funding level for fiscal year 2007 would equally reduce each State agency's NSA grant from the prior year's NSA grant level as needed to ensure that the national total of funds allocated for NSA stays within the 25 percent cap.

Currently, funds available from the WIC appropriation for grants to States are divided between food and NSA funds to provide a nationally guaranteed administrative grant per participant. During fiscal year 2006, 26.5 percent of available funds were provided for NSA.

SPECIAL SUPPLEMENTAL PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)—FOOD PACKAGE

Question. In April 2005, the National Academy of Sciences Institute of Medicine released a report that recommended revisions to the food package offered to WIC participants. The report recommends that revisions to the food package encourage consumption of fruits and vegetables, emphasize whole grains, lower saturated fat, and appeal to diverse populations. In accordance with these recommendations, I understand that a final rule updating the WIC food package will be released at the end of 2006. Will the final rule be released at the end of this year as required? I understand that the final rule will be cost neutral, meaning that the total cost of the food package will not change. Will keeping changes to the package cost neutral have an effect on the overall make up of the food package?

Answer. Absent further delays, we fully anticipate that a proposed rule can be published this summer. However, affording opportunity for a full 90-day public comment period for this important rule may preclude issuing an interim final rule within the 18-month statutory deadline of November 2006.

Adding new items to the food package requires adjustments to current items in the package. As such, the overall make up of the food package would change.

MINORITY OUTREACH

Question. The Food and Nutrition Service provides outreach and information on the programs it operates and dietary guidelines. What is FNS doing to make sure these important messages are appropriately targeted to minority populations, including the rapidly growing Hispanic population in the United States? How much does FNS spend annually on these information campaigns and specifically on minority outreach?

Answer. For all of the major nutrition assistance programs, program outreach and information materials are targeted to reach low-income populations, including minority populations and those who speak Spanish and other languages beyond English. This includes making program application easier for non-English speakers by expanding the number and types of products available in Spanish and other languages.

In food stamps, USDA's largest nutrition assistance program, FNS identified three target populations for food stamp outreach activities—seniors, the working poor, and immigrants. Each of these groups contain large subsets of minority populations, including Hispanics. These target populations were selected because they represent populations that are hard to reach and have historically low food stamp participation rates. FNS makes special efforts to reflect cultural diversity in all outreach materials, tools, and resources (including photos and cultural sensitivities) and to provide outreach materials in multiple languages, whenever possible. Numerous outreach materials are available in Spanish as well as English. In addition, about six informational publications are available in more than 30 other languages. Food stamp outreach activities include:

- Posters, flyers, and brochures available in English and Spanish featuring diverse families and individuals.
- Informational materials available in 35 languages.
- Collection of "10 FSP Myths and Facts" handouts for various populations in English and Spanish.
- Television PSA available in English and Spanish.
- Toll free number offering information and service in English and Spanish.
- Paid radio advertisements for the past 3 years in English and Spanish.
- Award of small outreach grants awarded to community organizations that serve immigrants and minority populations (every year since 2001 with the exception of 2003).
- Photo gallery featuring images of outreach and nutrition education for use by State and local outreach providers and featuring diverse families and individuals.

—Food stamp pre-screening tool in English and Spanish.

In WIC, USDA developed the Fathers Supporting Breastfeeding Project, which focuses on educating fathers about the benefit of breastfeeding so that they may have a positive impact on a mother's decision to choose to breastfeed. The primary target audience for this project is African American males because African American females have the lowest breastfeeding rates compared to other racial/ethnic groups. USDA also recently launched the WIC Hispanic Breastfeeding Promotion and Education Project to develop educational resources that specifically address the barriers to breastfeeding for Hispanic WIC participants.

USDA conducts a wide range of nutrition education and promotion activities to motivate participants to improve their eating and physical activity behaviors. Food and Nutrition Service (FNS) nutrition education efforts are targeted primarily to participants or potential participants in the nutrition assistance programs, rather than to the general public. The Center for Nutrition Policy and Promotion (CNPP) provides nutrition information for the general public. USDA makes the development of materials that promote healthy food choices to the Spanish-speaking community, in ways that are understandable and culturally relevant, a critical priority. Key efforts include:

- Development of a comprehensive nutrition education initiative targeting low-literacy and Spanish-language populations, to help Food Stamp Program recipients and other groups served by USDA to overcome their barriers to healthy eating and physical activity behaviors, based on the Dietary Guidelines for Americans. The materials are planned for release in 2007.
- Eat Smart. Play Hard. Materials in Spanish promote healthy eating and physical activity, including activity sheets, bookmarks, posters, and brochures. Over 2.4 million of these Spanish-language materials have been ordered by program cooperators to date.
- Development of Eat Smart, Live Strong, a behavior-focused nutrition and physical activity intervention for able-bodied, low-income seniors, 60–74 years old. The intervention focuses on two key behaviors: increasing fruit and vegetable consumption and physical activity.
- The Food Stamp Nutrition Connection (FSNC), an online resource system designed to facilitate communication and resource sharing among Food Stamp Nutrition Education providers. There are 70 nutrition education materials written in Spanish on the FSNC Web site, <http://www.nal.usda.gov/foodstamp>.

One of the main tenets and philosophies of CNPP's new MyPyramid Food Guidance System was to personalize and individualize dietary guidance. Upon the release of MyPyramid in April 2005, children and Spanish speakers were the first two sub-groups of the U.S. population to receive personalized attention. Within the year, USDA released MyPyramid for Kids and MiPirámide, the Spanish-language version. MyPyramid for Kids features Tips for Families in both English and Spanish, an interactive computer game, posters, worksheets, and classroom materials to help children learn about the benefits of healthful diets and physically active lifestyles.

With the funds requested for 2007, the CNPP will seek expanded translation of MyPyramid materials. We will also look for greater message dissemination supported by culturally appropriate consumer research and seek greater outreach through public/private partnerships.

Major FNS/CNPP nutrition education and information expenditures are listed below:

FNS NUTRITION EDUCATION AND INFORMATION ESTIMATED EXPENDITURES

[In thousands of dollars]

Program	Fiscal year 2006	Fiscal year 2007
Food Stamp Program	262,900	263,004
Team Nutrition (for Child Nutrition Programs)	15,039	15,034
WIC Program (general nutrition education and information)	305,599	290,510
WIC Program (breastfeeding promotion and education)	91,091	91,241
Food Distribution Program	200	1,200
Other Nutrition Education	7,504	8,634
TOTAL, FNS	682,423	669,624
CNPP Nutrition Education and Information Expenditures	2,865	4,898
Total, FNCS	685,288	674,522

Each fiscal year, FNS spends \$8 million on national outreach activities to promote the nutrition benefits of food stamps. As described above, most all of our food stamp outreach activities touch minority populations in some way. Thus, while it is not possible to break out how much is spent on minority outreach specifically, we believe that almost all of it is spent on program information activities that impact minority populations.

FOOD DEFENSE—FOOD EMERGENCY RESPONSE NETWORK

Question. The fiscal year 2007 budget requests an increase of \$15.8 million to expand the Food Emergency Response Network (also known as FERN) and upgrade FSIS' laboratory capabilities for evaluating a broader range of threat agents for food. A part of the President's food and agricultural defense initiative, the Food Emergency Response Network will be a national network of 100 laboratories for testing of food samples for contaminants. The Food Emergency Response Network has been an ongoing partnership with FSIS, FDA, and State laboratories since fiscal year 2005. How many labs currently participate in FERN? Where are they?

Answer. Currently, there are 26 laboratories actively participating in FERN. Of these 26 laboratories, FSIS has cooperative agreements with 18 State laboratories to begin to build what is, at this time, a very limited capacity to test for biological threat agents in food, while the Department of Health and Human Services' Food and Drug Administration has agreements with 8 State laboratories to develop capacity to respond to chemical attacks on the food supply. Over 100 more laboratories have completed a checklist and volunteered to share data with FERN.

FSIS has cooperative agreements with the following 18 State laboratories to build a still very limited capacity to test for biological threat agents in food:

State	Division
Virginia	Virginia Division of Consolidated Laboratory Services
Arkansas	Arkansas Department of Health
Delaware	Delaware Health and Social Services
Florida	Florida Department of Agriculture and Consumer Affairs
Hawaii	Hawaii State Laboratories Division, Department of Health
Indiana	Indiana State Department of Health
Massachusetts	Massachusetts Department of Public Health, State Lab Institute
Michigan	Michigan Department of Agriculture & Michigan Department of Health
Minnesota	Minnesota Department of Agriculture
Montana	Montana Department of Public Health & Human Services
Nebraska	Nebraska Department of Agriculture
New Hampshire	New Hampshire Public Health Laboratories
New Jersey	New Jersey Department of Health and Senior Services
New York	New York State Department of Agriculture
Ohio	Ohio Department of Agriculture, Consumer Analytical Lab
Rhode Island	Rhode Island Department of Agriculture
South Carolina	South Carolina Department of Health & Environmental Control
South Dakota	South Dakota Animal Disease Residue & Diagnostic Lab, South Dakota State University

The Department of Health and Human Services' Food and Drug Administration has agreements with the following 8 State laboratories to develop capacity to respond to chemical attacks on the food supply:

State	Division
Iowa	University of Iowa
California	Regents of the University of California
Arizona	Arizona Department of Health Service
Connecticut	Connecticut Agriculture Experimental Station
Virginia	Virginia Division of Consolidated Labs
Minnesota	Minnesota Department of Agriculture
New Hampshire	New Hampshire Department of Public Health
Florida	Florida Department of Agriculture

Question. How many labs do you hope to add with the increased funding?

Answer. Using fiscal year 2005 funds, FSIS spread \$1.2 million between 18 laboratories with which the agency has cooperative agreements. As a result, more funding is needed to make these labs operational within FERN. An operational FERN lab is defined as a laboratory that has developed the capability and demonstrated proficiency to test meat, poultry, and egg products for 2–3 threat agents, either as a screening test or a confirmatory test. It is important to note that not all labs will test for the same threat agent or agents. The request was for \$15.8 million, \$13 million of which will go to build laboratory capacity and \$2.8 million for electronic communication in real-time between the laboratories for more rapid, timely information sharing and response. With the \$13 million FERN request for fiscal year 2007, FSIS will be able to ensure that those original 18 laboratories plus five additional laboratories are operational FERN labs. Thus, by the end of fiscal year 2007 with the funding requested, 23 State labs would be capable of operating in FERN in the event of an intentional attack, an act of nature, or a hoax and help USDA ensure product safety and consumer confidence in the food supply.

FSIS also requests \$2.5 million for two data systems to support FERN: the electronic laboratory exchange network (eLEXNET), and a repository of analytical methods. The eLEXNET is a nationwide, Web-based electronic data reporting system that allows analytical laboratories to rapidly report and exchange standardized data. This system is currently operational in nearly 100 food-testing, public health, and veterinary diagnostic laboratories across the country. The funding will be used to make eLEXNET available to additional FERN and other analytical, food-testing laboratories.

FSIS is working with FDA to develop a Web-based repository of analytical methods compatible with eLEXNET. Access to these methods will greatly enhance the ability of FERN and other laboratories to respond to emergencies, to use new methodologies and technologies, and to enhance efficiency. The requested funding will be used to enhance the repository and to populate the repository with numerous methods that will be obtained from analytical laboratories.

Question. What does USDA provide for the State labs with this funding—staff, equipment, training?

Answer. FERN establishes the network of communication between levels of government and ensures that all laboratories participating have the necessary capacities and capabilities needed to respond to an attack, act of nature, or hoax affecting the food supply. FERN enhances the abilities of existing laboratories to perform procedures and tests through training, proficiency testing, food defense exercises, acquisition of new equipment, and the repository of validated methods. FERN is able to offer these, and other, resources to the State and local labs primarily through funding from cooperative agreements. No staff years are provided with these funds.

Question. How, exactly, do the labs assist USDA in protecting the food supply from a potential terrorist attack?

Answer. FERN enables FSIS to leverage State and local laboratories for surge capacity in handling the numerous samples that would be required in the event of an attack, act of nature, or hoax that affects the food supply and to maintain product safety and consumer confidence in the U.S. food supply. The request was for \$15.8 million, \$13 million of which will go to build laboratory capacity and \$2.8 million for electronic communication in real-time between the laboratories for more rapid, timely information sharing and response. The \$13 million budget request for FERN will enable the agency to manage, maintain, and expand the capacities and capabilities of the existing FERN labs and bring new labs into the network. The \$2.5 million requested for eLEXNET and the repository of analytical methods, will enhance the data systems supporting FERN.

There are estimated to be over 50,000 food types and literally thousands of biological, chemical, and radiological agents that can be added to food that pose a threat to humans. Many different laboratory analytical methods are needed to detect these agents. For a large number of agent/food combinations, there are no proven or validated methods. Part of the FERN effort will be to develop and validate these methods and to provide the necessary equipment and training to the member laboratories. Because there are such a large number of agent/food combinations that may require testing, no single laboratory will be able to respond to every threat. The mission of FERN is to develop the capability and capacity of existing labs to respond to any type of threat to food. Some analyses can be done at a rate of over 1,000 per day while others are much slower, perhaps only 10 per day. The laboratory capacity is dependent on the specific scenarios and the specific threat agent involved. The goal of 100 State labs to be fully functional under FERN is an estimate of the capacity necessary to address many of the common foodborne threats agents in the vast array of food matrices.

BUDGET REQUEST—CONSTRUCTION AUTHORITY

Question. The budget request includes \$565,000, from current resources, for construction of a laboratory receiving facility at an Agricultural Research Service lab in Athens, GA. FSIS currently does not have authority to construct facilities, and this is the first time FSIS has requested such authority through the budget process. Why is this sample receiving facility necessary and how will it benefit FSIS operations and performance?

Answer. In the event of a food safety emergency, a sample receiving facility that is separate and distinct from the laboratory in Athens, Georgia, would be essential. For instance, if a hazardous material arrived at the present sample receiving area, FSIS may have to shutdown and decontaminate the entire laboratory. As a result, all incoming test samples would be delayed while shipped to one of only two other FSIS laboratories and in a food safety emergency, such delays could have a serious impact on public health. The Agricultural Research Service laboratories in the same building could also be shut down and need to be decontaminated. Decontamination can be a long, tedious process. For example, the Hart Senate Office Building was closed for a lengthy period of time for decontamination. FSIS cannot afford to have its only BSL-3 laboratory and a major ARS research laboratory closed for any length of time. Thus, a separate sample receiving facility would enable the laboratory to continue with its work, even if the receiving facility was forced to shut down.

Question. If funding for the facility comes from current resources, what current activities will be negatively impacted by this reduction?

Answer. No current essential public health activities would be negatively impacted by the construction of a laboratory receiving facility in Athens, Georgia. Only after the essential public health needs are met will the agency consider using other available resources to build the facility.

CODEX

Question. The work of the U.S. Government through Codex has been critical in advancing trade in U.S. food and agriculture. So important, in fact, that several years ago dedicated funding was identified to support the U.S. Codex office. In fiscal year 2006, funding for Codex through this appropriations bill is slightly more than \$3 million. This funding is intended, in part, for international outreach efforts with other countries to advance U.S. policy positions. The U.S. food industry has expressed concern that these dedicated resources are not available for Codex outreach as intended but are being directed to general FSIS program activities. Does your office provide an accounting of how the Codex money is spent?

Answer. The U.S. Codex Office is part of the Office of the Administrator for the Food Safety and Inspection Service (FSIS), which provides funding and tracks expenditures for U.S. Codex Office operations, outreach and representational events. The Manager of the U.S. Codex Office reports directly to the Under Secretary for Food Safety and keeps the Under Secretary informed about the status of the U.S. Codex Office budget and expenditures.

Question. Are other organizations or initiatives, outside of direct Codex work, being funded by this specific amount?

Answer. No, the funding provided will be used for activities associated with the work of the Codex Alimentarius Commission and its committees, task forces, and working groups.

Question. Please identify the international outreach programs for fiscal year 2007.

Answer. The U.S. Codex Office manages a vigorous program of outreach to developing countries, which involves co-hosting committee meetings, organizing multi-day technical seminars on a variety of issues, and inviting delegates from developing countries to meet U.S. delegates at special, issue-specific workshops. These meetings provide opportunities for Codex officials from developing countries to exchange views with experts from the United States for the purpose of developing working relationships and building confidence in the U.S. positions on issues under negotiation.

One of the United States' on-going objectives is to broaden participation in Codex, especially participation by developing countries. Many of the least developed countries have varied levels of food safety infrastructure, and participation in Codex by representatives of these countries is largely disconnected from the national experience. While the United States believes that capacity-building activities should be funded and managed by other organizations, the outreach program of the U.S. Codex Office can help developing countries to set priorities for their participation in Codex and identify specific objectives for building their capacity to participate effectively in Codex negotiations.

Africa has become a priority for developing new working relationships. On April 19–21, 2006, the U.S. Codex Office hosted a technical seminar in Maputo, Mozambique for Codex contact points from African countries. In 2007, the U.S. Codex Office will follow up on the outcomes of this technical seminar.

The Latin American and Caribbean communities will continue to be top priorities, and the U.S. Codex Office will build on the working relationships existing with these countries to organize additional outreach events, just as the U.S. Codex Office has organized events with Latin America and the Caribbean in the previous 3 years. Currently, the U.S. Codex Office is working with Argentina, Mexico, and Brazil to organize a technical seminar with the member countries of the Codex Committee for Latin America and the Caribbean (CCLAC), except Cuba. Argentina holds the rotating presidency of CCLAC, Mexico is the representative for Latin America and the Caribbean on the Codex Executive Committee, and we propose to host this seminar with the Brazilians in Rio de Janeiro, June 1–3, 2006. This seminar has two main purposes: (1) to enhance the capacity of officials in Latin America and the Caribbean countries to participate more effectively in meetings of the Codex Alimentarius Commission and its Committees; and (2) to strategize about potential new work and new directions for the Codex Alimentarius Commission to respond to emerging food safety and trade issues in which the United States and the CCLAC members have common interests. The agenda features presentations and panel discussions with U.S., Latin American and Caribbean experts, and experts will also be invited from inter-American institutions (such as the Pan American Health Organization (PAHO), the Inter-American Institute for Cooperation on Agriculture (IICA)) and from the Food and Agriculture Organization (FAO) and the World Health Organization (WHO) which are the sponsoring organizations of the Codex Alimentarius Commission.

In addition, FSIS' Food Safety Institute of the Americas (FSIA), established in October 2004 to improve food safety and public health training throughout the Western Hemisphere, is promoting more effective participation in the Codex Alimentarius Commission. The Western Hemisphere has many shared interests in food safety, many of which are raised in Codex. FSIA wants to assist these countries in becoming more aware of these shared hemisphere interest, and encourage joint scientific and unified responses in Codex by the hemisphere. FSIA will do this by working with governments throughout the hemisphere to establish permanent food safety and public health training programs in each country at all educational levels—high school, university, and graduate levels. FSIA has its own budget. No Codex funds are used for FSIA activities.

Through FSIA, FSIS hopes to encourage countries to adopt the food safety standards developed by Codex as minimum food safety standards within their countries.

By building relationships throughout the hemisphere on a non-regulatory basis, FSIA can improve trade and public health in the hemisphere. With new trade agreements being implemented, FSIA has an opportunity to work closely with these countries to provide a forum for discussions about the food safety and public health needs of the hemisphere. Scientifically based education and training need improvement throughout the hemisphere, and by sharing information and finding common solutions, we will all benefit.

FSIA provides training and education materials to educational institutions throughout the hemisphere. Many excellent but underutilized educational programs have been developed by international and hemispheric organizations such as the PAHO, the IICA, the FAO, and the WHO. FSIA promotes these types of existing programs.

HUMANE SLAUGHTER

Question. There are allegations that USDA does not adequately inspect the transport and slaughter of horses. Please comment on the adequacy of USDA's effort for both of these critical functions.

Answer. Under USDA's Slaughter Horse Transport Program (SHTP), administered through the Animal and Plant Health Inspection Service (APHIS) and described in the 1996 Farm Bill, only horses that are fit to travel may be shipped in accordance with APHIS regulations. Upon arrival at a U.S. slaughter plant, APHIS Veterinary Services personnel (1) examine each shipment of horses; (2) accept and review the owner/shipper certificate; (3) question the shipper to verify compliance; (4) examine each horse after off-loading; (5) inspect the animal cargo area of the conveyance; (6) document any violations; and (7) ensure the plant provides food and water after off-loading.

At U.S. borders, port veterinarians review and compare the health certificate and the owner/shipper certificate for each shipment. If discrepancies are noted, port vet-

erinarrians visually examine the horses to determine if the crossing should be permitted or refused.

The SHTP helps ensure that horses are transported humanely to slaughter by preventing injuries and ensuring adequate food and water so that the horses do not endure unnecessary suffering prior to slaughter. Examination of the horses prior to and after shipment is critical to ensuring that owners and shippers transport horses humanely to slaughter.

USDA has abided by the prohibition of federally-funded USDA inspections of horses presented for slaughter at official establishments. The fiscal year 2006 Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act included a section prohibiting the use of appropriated funds to pay the salaries or expenses of personnel to inspect horses (ante-mortem inspection) after March 10, 2006. Conference report language for the Act recognized the Food Safety and Inspection Service's (FSIS) obligation under existing statutes to "provide for the inspection of meat intended for human consumption (domestic and exported)."

While the appropriations bill prohibited appropriated funds from being used to pay for ante-mortem inspection, it does not eliminate FSIS' responsibility under the Federal Meat Inspection Act (FMIA) to carry out post-mortem inspection of carcasses and meat at official establishments that slaughter horses. In response to a petition, FSIS established a fee-for-service program under which establishments can apply and pay for ante-mortem inspection of horses. The interim final rule became effective March 10, 2006.

The fee-for-service program meets all of the Federal inspection requirements for slaughter. Under the fee-for-service program, all requirements in the regulations authorized by the FMIA that pertain to official establishments that slaughter horses continue to apply. Inspection program personnel are to continue to conduct all inspection activities, including ante-mortem inspection, in accordance with the requirements of the FMIA and applicable Federal meat inspection regulations, including regulations pertaining to humane handling.

Question. Will the recently implemented fee-for-service regulations regarding ante-mortem inspection of horses at slaughter diminish USDA's ability to carry out its duty under the humane slaughter act?

Answer. No, USDA considers humane handling and slaughter high priorities and is committed to ensuring compliance with the Humane Methods of Slaughter Act (HMSA). USDA strictly enforces the provisions of the HMSA, which, like other Federal meat inspection regulations, continues to apply under the fee-for-service program.

FSIS employs a veterinarian and slaughter line inspectors at every federally inspected slaughter establishment. FSIS compliance officers also make further inquiries and prepare reports of instances in which there are alleged violations of regulations, including violations of the humane handling and slaughter regulations. All FSIS livestock inspection personnel are trained in humane handling and understand that they are obligated to take immediate enforcement action when a humane slaughter violation is observed.

Question. Will the recently enacted language in the Agriculture Appropriations Bill allow the USDA to adequately inspect the transport of horses for humane treatment?

Answer. With the language included in the fiscal year 2006 Agriculture Appropriations Bill, USDA will be able to continue to adequately inspect the transport of horses for humane treatment by supporting this activity through user fees.

Question. Do you believe that the USDA is able to insure the humane transport and slaughter at these plants in the United States?

Answer. As long as APHIS is authorized to carry out the SHTP activities through either Federal funding or user fees, program personnel will be able to help ensure the humane transport of horses to slaughter. SHTP personnel help prevent injuries and ensure that the horses have adequate food and water so that they do not endure unnecessary suffering prior to slaughter. Examination of the horses is critical to ensuring that owners and shippers transport horses humanely to slaughter.

All requirements in the regulations authorized by FMIA that pertain to official establishments that slaughter horses continue to apply. Inspection program personnel are to continue to conduct all inspection activities, including ante-mortem inspection, in accordance with the requirements of the FMIA and applicable Federal meat inspection regulations, including regulations pertaining to humane handling. FSIS can deny or withdraw ante-mortem inspection services at horse slaughter establishments for any applicable reason under Federal regulations.

ANIMAL IDENTIFICATION

Question. The Congress has provided over \$66 million for the implementation of an animal identification system. This level of funding does not include an additional \$18.7 million that was transferred from the Commodity Credit Corporation. With that in mind, the budget request for fiscal year 2007 proposes another \$33 million to continue this animal identification exercise. Please provide us with an update on the status of animal identification and when you expect a national program to be fully implemented.

Answer. USDA anticipates that the National Animal Identification System (NAIS) will be a fully operational system in early 2007, and it will consist of three main components: premises registration, animal identification, and animal tracking. The standardized premises registration system provided by USDA is operational in 40 States. The remaining States are using one of several compliant premises registration systems, for which they are financially responsible. Premises registration continues to be USDA's priority, which the Agency supports by providing cooperative agreement funding to States and Tribes. The States and Tribes themselves administer the premises registration process. APHIS has established benchmarks and timelines to achieve full participation in this aspect of the NAIS by fiscal year 2009.

The component of NAIS that enables individual animal identification became operational in March 2006 and is funded by USDA. Animal identification devices will be purchased by producers. The NAIS implementation plan calls for increased levels of animals to be identified with the Animal Identification Number starting in 2006, and for all newborn animals born throughout 2008 to be identified when moved from their birth premises.

The final component of NAIS—the animal tracking databases—will be managed and owned by the industry and States. The cost of the animal tracking databases will be covered by the industry and States. An interim/development phase for these tracking systems will be launched in April 2006, and fully operational systems will be in place by February 2007. USDA is developing the metadata system that supports the integration of multiple animal tracking databases.

Question. How do you plan to address the infrastructure needs (i.e.; eartags, scanners, and private databases) to implement this program? For instance, if all the cattle in the United States are ear tagged, without a network of scanners in place, the program will be unable to operate.

Answer. In developing NAIS, USDA is establishing data standards and the design of the data system. Once the identification system is designed, stakeholders will determine which technologies are the most appropriate to meet the needs of the system and which methods are most cost-efficient and effective. Producers are in the best position to determine which animal identification and data collection technologies are used, and they will have responsibility for purchasing them.

Although the marketplace will determine which technologies are used to support the NAIS, USDA has established minimum standards and requirements for certain species. For example, a visual eartag with the Animal Identification Number (AIN) imprinted on the tag has been established as the de facto standard for cattle. Other forms of identification that may be used with the AIN tag are referred to as "supplemental identification." The use of such supplemental identification is a decision to be made by the producer. This ensures that the additional cost of advanced technology is optional at the producer level. Some producers may elect not to use such technologies within their herd management program, and USDA does not want to limit their participation in the NAIS.

It is true that automated data collection devices will help the industry effectively obtain information on their animals. The integration of the NAIS data standards into management systems and processes will result in the most successful and cost-effective systems. The selection of such technology is best determined by the industry sector to ensure their preferences are met in incorporating the data standards with their management practices and information systems. However, as long as animals are identified according to uniform standards established through the NAIS, State and Federal animal health officials will have a much better chance of carrying out a successful epidemiologic investigation than they would otherwise. The technology for identifying animals is rapidly evolving. USDA acknowledges the need to have compatibility of systems throughout the pre-harvest production chain, but believes producers and the marketplace are in the best position to determine which technologies are used.

Question. Please provide a legal opinion explaining the authority of the Secretary to create a mandatory national animal identification system.

Answer. The Animal Health Protection Act (AHPA), 7 USC § 8301–8317, authorizes the Secretary of Agriculture to carry out operations and measures to detect,

control, or eradicate livestock pests or disease. It also provides ample authority to establish and implement either a mandatory or voluntary system of animal identification. Further, the AHPA enables the Secretary to enter into agreements with States or other stakeholder organizations to implement either a mandatory or voluntary animal identification program.

PREMISE IDENTIFICATION

Question. Please provide information by State on the total number of premises, the total number of premises identified, and the percentage of premises identified. Please keep the subcommittee updated on these figures quarterly.

[The information follows:]

Please note: The estimated number of premises for each State was obtained from USDA's National Agricultural Statistics Service 2002 Census of Agriculture. Based on NASS' definition of a farm, the estimated number of premises may not accurately reflect the total number of premises in each State for purposes of the NAIS. (Number of premises identified as of March 2006)

State	Total estimated premises	Number of premises identified	Percentage of premises identified
Alabama	48,036	1,766	3.68
Arkansas	52,878	5,542	10.48
Arizona	9,443	234	2.48
California	52,234	2,343	4.49
Colorado	36,747	1,667	4.54
Delaware & Maryland	13,406	2,108	15.72
Florida	41,458	2,215	5.34
Georgia	46,836	1,385	2.96
Iowa	64,327	3,134	4.87
Idaho	29,502	15,073	51.09
Illinois	40,810	3,745	9.18
Indiana	49,500	5,105	10.31
Kansas	54,030	3,057	5.66
Kentucky	80,823	5,026	6.22
Louisiana	27,650	517	1.87
Maine	7,525	326	4.33
Michigan	45,706	10,221	22.36
Minnesota	61,625	10,606	17.21
Missouri	109,082	7,771	7.12
Mississippi	41,272	543	1.32
Montana	32,370	312	0.96
North Carolina	51,309	2,699	5.26
North Dakota	19,716	7,182	36.43
Nebraska	43,236	5,734	13.26
New Jersey	9,169	70	0.76
New Mexico	19,338	467	2.41
Nevada	4,764	934	19.61
New York	40,134	13,176	32.83
Ohio	72,543	1,417	1.95
Oklahoma	105,158	2,904	2.76
Oregon	48,188	1,930	4.01
Pennsylvania	68,699	27,987	40.74
South Carolina	23,115	1,361	5.89
South Dakota	32,216	3,842	11.93
Tennessee	93,529	9,008	9.63
Texas	277,493	9,711	3.50
Utah	20,981	6,807	32.44
Virginia	51,097	2,686	5.26
Vermont	7,341	78	1.06
Washington	34,541	947	2.74
Wisconsin	74,511	47,171	63.31
West Virginia	26,582	7,452	28.03
Wyoming	14,615	227	1.55
Total	2,083,535	236,486,177	.....

OFFICE OF THE UNDER SECRETARY FOR MARKETING AND REGULATORY PROGRAMS

Question. The Under Secretary position for Marketing and Regulatory programs is currently vacant. This position is one that is very significant based on current issues that the Department of Agriculture continues to monitor. For instance, this office provides oversight and management of Department actions related to avian influenza, pest eradication programs, marketing and grading of commodities, and animal disease surveillance.

Please provide us with an update on this Under Secretary position. Also, how long do you expect this position to be vacant?

Answer. The Secretary appointed Dr. Charles “Chuck” Lambert as the Acting Under Secretary for Marketing and Regulatory Programs on November 14, 2005. Dr. Lambert served as Deputy Under Secretary for Marketing and Regulatory Programs since December 2, 2002. The Department anticipates that the President will nominate someone for this position in the very near future.

AVIAN INFLUENZA

Question. Please give us a status of avian influenza worldwide.

Answer. Avian influenza (AI) is a disease found among poultry. AI viruses can infect chickens, turkeys, pheasants, quail, ducks, geese, and guinea fowl, as well as a wide variety of other birds, including migratory waterfowl. Each year, there is a flu season for birds just as there is for humans and, as with people, some forms of the flu are worse than others.

AI viruses can be classified into low pathogenicity and highly pathogenic forms, based on the severity of the illness they cause in poultry, and within each of these forms are numerous subtypes. Most AI strains are classified as low pathogenicity avian influenza (LPAI) and cause few clinical signs in infected birds. Incidents of LPAI are commonly detected in domestic poultry flocks, and LPAI does not pose a serious threat to human health. However, two subtypes of LPAI can potentially mutate into a more dangerous form, and USDA is initiating programs to monitor those subtypes.

In contrast, high pathogenicity avian influenza (HPAI) causes a severe and extremely contagious illness and death among infected birds. The HPAI subtype that is considered to be the most serious is H5N1. Of the few avian influenza viruses that have crossed the species barrier to infect humans, H5N1 has caused the largest number of detected cases of severe disease and death in humans.

The World Organization for Animal Health reports that H5N1 HPAI has been detected in over 40 countries in 2005 and 2006. Nine countries have reported laboratory-confirmed cases of H5N1 influenza in humans, according to the World Health Organization.

There is no evidence that HPAI currently exists in the United States. Historically, there have been three HPAI outbreaks in poultry in this country—in 1924, 1983 and 2004. No significant human illness resulted from these outbreaks.

Question. Also, please provide an update on actions taken by your agency and how you are preparing for avian influenza.

Answer. Our safeguarding system against avian influenza (AI) encompasses, among other things, (1) cooperation with States in targeted and passive surveillance; (2) cooperative efforts and information sharing with States and industry; (3) outreach to producers regarding the need for effective on-farm biosecurity practices; (4) trade restrictions on poultry and poultry products from overseas; and (5) anti-smuggling programs.

Surveillance.—National surveillance for AI is accomplished through several means: (1) the National Poultry Improvement Plan (NPIP), a cooperative Industry-State-Federal program, which has a program for breeder flocks that has been in place since 1998; (2) State and university laboratories, which test suspect cases; (3) industry, which works with States to conduct export testing at slaughter; and (4) States, which conduct surveillance in areas where AI has historically been a concern (e.g., the live bird marketing system).

Low Pathogen Avian Influenza (LPAI) Surveillance and Control.—APHIS has developed a Federally-coordinated and State-assisted domestic LPAI program that provides surveillance for H5/H7 AI in two areas: (1) the live bird marketing system, and (2) the U.S. commercial broiler, layer, and turkey industries. By doing so, USDA and its partners will prevent the possible mutations and reassortments of the low-pathogenicity virus to its highly pathogenic form; reduce the likelihood of the virus becoming a zoonotic agent, thereby protecting the public (human health); and preserve international trade in poultry and poultry products.

Live Bird Market System.—In October 2004, APHIS established the live bird market segment of the National Control Program by publishing uniform standards to

prevent and control the H5 and H7 LPAI subtypes in live bird markets. These standards are now being implemented. APHIS enters into cooperative agreements with States that have live bird market activities, as well as Official State Agencies and NPIP authorized laboratories participating in the NPIP LPAI program. States will use funds to implement uniform guidelines for all participants in the live bird market system in the areas of State licensing, AI testing, recordkeeping, sanitation, biosecurity education and outreach, surveillance, inspections, and response to positive facilities. Funds also provide for equipment, supplies, and personnel to inspect and collect samples within the live bird market system; perform trace backs and trace forwards; and support additional field and laboratory activities essential to the program. By the end of fiscal year 2005, cooperative agreements for the live bird market system LPAI program were initiated with 21 States (California, Delaware, Florida, Georgia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Minnesota, Missouri, North Carolina, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas, Vermont, and Virginia).

Commercial Poultry.—The NPIP is developing the commercial poultry segment of the LPAI surveillance. The surveillance program will provide for H5 and H7 AI monitoring of participating broiler, table egg, and turkey production flocks and their respective breeding flocks. The adopted program is currently proceeding through the regulatory process that will fully establish this voluntary program as part of the NPIP. Official State Agencies use funds to work with NPIP LPAI participants to conduct active and passive surveillance and to develop State containment and response plans to enhance their ability to detect and respond to LPAI. This also facilitates trade through the documentation of disease-free status. Funds also provide for supplies and labor for conducting tests, laboratory cost for conducting LPAI clinical diagnostic surveillance, laboratory equipment to conduct the official tests of the NPIP LPAI program, site visits, sample collection, transportation, and submission to authorized laboratories and NVSL. APHIS has memoranda of understanding in place with 48 official State agencies to carry out commercial flock surveillance through the NPIP. The rule to establish the surveillance program is in the final stages of clearance.

Domestic Surveillance of Migratory Birds.—On March 20, 2006, USDA announced an enhanced national framework for early detection of HPAI in wild migratory birds in the United States. This readiness plan and system builds on, significantly expands, and unifies ongoing efforts among Federal, State, regional and local wildlife agencies. Because Alaska is at the crossroads of bird migration flyways, scientists believe the strain of highly pathogenic H5N1 currently affecting Southeast Asia would most likely arrive there first if it spreads to North America via migratory birds. Thus, the plan recommends a prioritized sampling system with emphasis in Alaska, elsewhere in the Pacific flyway, and the Pacific islands, followed by the Central, Mississippi, and Atlantic flyways.

The ability to effectively prevent the spread of highly pathogenic H5N1 to domestic poultry operations is greatly enhanced by being able to rapidly detect the pathogen if it is introduced into wild migratory birds in the United States. The interagency plan outlines five specific strategies for early detection of the virus in wild migratory birds, including (1) investigation of disease outbreak events in wild birds; (2) expanded monitoring of live wild birds; (3) monitoring of hunter-killed birds; (4) use of sentinel animals, such as backyard poultry flocks; and (5) environmental sampling of water and bird feces.

In spring 2006, under the interagency plan, the USDA and its cooperators plan to collect between 75,000 and 100,000 samples from live and dead wild birds in all States and 50,000 samples of water or feces from high-risk waterfowl habitats across the United States. The U.S. Geological Survey will initially screen 11,000 of the live bird samples at its National Wildlife Health Center in Madison, Wisconsin. The remaining samples will be initially tested at labs certified by USDA in the National Animal Health Laboratory Network. Suspected findings of HPAI will be further tested and diagnosed by the National Veterinary Services Laboratory. Since the summer of 2005, the Department of Interior (DOI) has been working with Alaska to strategically sample migratory birds in the Pacific flyway. DOI has already tested more than 1,700 samples from more than 1,100 migratory birds. No highly pathogenic isolates have been detected. Since 1998, USDA has tested over 12,000 migratory birds in the Alaska flyway; since 2000, almost 4,000 migratory birds in the Atlantic flyway have been tested. All birds in these flyways have tested negative for the highly pathogenic H5N1 virus of concern.

Education and Outreach.—The USDA's Biosecurity for the Birds Campaign is an outreach initiative designed to educate noncommercial poultry owners about the signs of AI and other poultry diseases; promote the importance of practicing biosecurity; and encourage rapid reporting of clinical signs of disease and/or unexpected

deaths. The advertising campaign began in July 2004 and has reached a circulation of over 125 million.

Trade Restrictions and Anti-Smuggling Program.—USDA maintains import restrictions on poultry and poultry products from countries affected by H5N1. Furthermore, all imported live birds (and returning U.S.-origin pet birds) must be quarantined for 30 days and tested for the AI virus before entering the country. USDA works closely with the Department of Homeland Security's Customs and Border Protection to enforce import restrictions. To ensure compliance with restrictions, APHIS concentrates on identifying smuggled poultry products and live birds from H5N1-affected countries. APHIS also conducts routine surveys, special operations, and marketing activities focusing on H5N1 products in commerce and at ports of entry. All suspected violations are forwarded to APHIS' Investigative and Enforcement Services staff for further investigation. Civil and/or criminal penalties may be issued for violations.

APHIS has also increased its monitoring of domestic commercial markets for illegally smuggled poultry and poultry products. USDA works with trading partners and the World Organization for Animal Health (OIE) to maintain safe trade.

Responding to an Outbreak.—In the event of an HPAI outbreak, APHIS has the Foreign Animal Disease management infrastructure to conduct an emergency response that would occur at the local level, in accordance with the National Animal Health Emergency Management System's guidelines for highly contagious diseases. Should the disease be detected in commercial flocks or in back yard flocks, affected flocks would be quickly quarantined to prevent spread. Sick and exposed birds would be euthanized and the premises cleaned and disinfected to stamp out the disease. USDA would conduct epidemiology investigations to determine the source of the virus, and to track the movement of birds to contain spread.

To ensure immediate deployment of supplies necessary to contain, control, and eradicate an HPAI outbreak, APHIS is building a stockpile of needed vaccines, antiviral, and therapeutic products including reagents, disinfectants, and equipment. We are also conducting simulated exercises specific to avian influenza to ensure an effective response to an outbreak of the disease. Further, APHIS is developing models of the potential impacts of avian influenza outbreak in the United States and alternative control strategies.

If the scope of the HPAI outbreak is beyond APHIS' and the affected State's immediate resource capabilities, additional resources can be obtained through the following mechanisms: the National Response Plan's Emergency Support Function #11 ensuring that animal-health emergencies are supported in coordination with the emergency support function that covers public health and medical services; and the National Animal Health Emergency Response Corps and various State response corps can be activated. These private veterinarians and animal health technicians are ready to assist on short notice.

HURRICANE ASSISTANCE

Question. The Congress recently provided emergency funding through the hurricane supplemental for a number of programs that are within the rural development mission area. To be more specific, we provided supplemental funding for the Rural Community Advancement Program and Rural Housing.

Please provide us with an update on the Department's use of the funds. What additional needs are you aware of in rural areas that were affected by Hurricane Katrina?

Answer. On March 13, 2006, Rural Development published a Notice of Funding Availability (NOFA) in the Federal Register implementing the hurricane supplemental provisions of Public Law 109-148.

The supplemental provided \$35 million in budget authority for our direct and guaranteed homeownership programs, \$10 million for direct homeownership repair loans, and \$20 million in direct homeownership repair grants. These funds have been allocated to the gulf region. We expect that all direct loan and grant funds will be obligated in fiscal year 2006. Of the \$15 million of budget authority for guaranteed homeownership loans (\$1.3 billion in deliverable program level), we expect the majority of these funds will be carried over into fiscal year 2007. We are also planning to use a portion of this budget authority to implement a mortgage recovery program for our guaranteed homeownership customers. Under this program, Rural Development will advance to a lender up to 1 year's worth of payments to bring the customer to a current status. To be eligible for the program, the customer had to be in good standing with the lender prior to the hurricanes and have a reasonable prospect for success. The debt would be secured by a non-interest bearing soft-sec-

ond lien on the property payable upon sale or transfer of title. Rural Development will be publishing a NOFA on this initiative in the near future.

The Water and Environmental Programs received \$45 million in budget authority. We continue to monitor the situation with regard to telecommunications and electric demands, but to date, we have not received any applications. The first request for 2005 hurricane funds was received on April 10, 2006, and is in the process of being reviewed for funding qualifications.

Additional demand for our programs is still difficult to estimate. Rebuilding of the housing stock in the gulf region is very dependent on ensuring that adequate infrastructure exists, on-going negotiations between existing homeowners seeking Federal Emergency Management Agency (FEMA) and insurance benefits, lack of builders, and high building costs. Our local field offices continue to work with our customers and within these rural communities to help with recovery efforts.

515 HOUSING PROGRAM

Question. The fiscal year 2007 budget request eliminates funding for the 515 Rural Rental Housing Program. The 515 housing program provides funding for construction and revitalization of affordable rental housing for rural families who have very low to moderate incomes.

If the Congress does not provide funding for the 515 housing program, will low income citizens have any other option when it comes to affordable housing?

Answer. Yes. Rural Development's section 538 Guaranteed Rural Rental Housing Program (GRRHP) provides affordable housing to very-low and low income families. The section 538 program works in partnership with other financing entities to create affordable housing. The lender provides the financing to construct or renovate affordable housing, Rural Development guarantees the loan. Guaranteed loans generate 10 times more loan funds for the same budget authority than do direct loans, and attract 2.5 times more private sector leveraged money. More than 90 percent of the closed loans in the portfolio have 9 percent tax credit dollars. Tax credits require owners to achieve affordability targets, resulting in high percentages of low and very low income tenants. Many tenants in section 538 properties have section 8 vouchers which assist the tenants in paying rent. The program also offers interest credit subsidies that assist in lowering the interest rate throughout the term of the loan. The subsidized interest rate keeps rents low for tenants. The section 538 program requires that rents not be more than 30 percent of 115 percent of the area median income, and average rents for all units at the property cannot be more than 30 percent of 100 percent of area median income.

For example, last year the following was provided for new construction:

[The information follows:]

COMPARING RENTAL UNITS PRODUCED IN FISCAL YEAR 2005 WITH SECTION 515 AND 538 BUDGET AUTHORITY

	Direct loans	Guaranteed loans
Budget Authority	\$13,200,000	\$3,462,000
Funding Authority	\$28,013,000	\$99,200,000
Units Produced	783	3,313
Tenants < 60 percent of Area Median Income (Est.)	720	1,000

While the average incomes may appear different (\$10,036/year adjusted income in Section 515 vs. \$18,400/year gross income in Section 538), the aggregate number of families served in the very low income category is greater in Section 538.

RURAL HOUSING VOUCHER PROGRAM

Question. In fiscal year 2006, Congress included \$16 million for a new rural housing voucher program. This funding is available to assist tenants who are unable to reside in the current rental arrangement due to a property owner exiting the program. The fiscal year 2007 budget request increases the funding level for housing vouchers to \$74 million.

Please take a moment to explain the current status of the \$16 million that was provided for fiscal year 2006. Also, do you expect the funding that has been provided for the current fiscal year to meet the demand?

At this point, it seems difficult to determine how many owners will choose to prepay and exit the program. Please explain how the Department determined this level of funding for fiscal year 2007.

Answer. On March 20, 2006, Rural Development published a NOFA announcing the availability of a voucher demonstration program and has started to utilize the \$16 million that was provided for fiscal year 2006. The first Rural Development Vouchers were issued in early April. We anticipate that demonstration funding will be sufficient to provide 2,700 vouchers to protect tenants in projects that prepay during fiscal year 2006.

The Comprehensive Property Assessment (CPA) found that 10 percent of the properties (approximately 1,700) could be economically viable to prepay, if permitted. This is estimated to be about 46,000 units, with approximately one-third of the prepayments occurring in each of the first 3 years. The \$74 million proposed fiscal year 2007 funding level allows USDA to fund approximately 15,000 units at a per voucher funding level of slightly over \$400 per month. This will include the renewal of up to 2,700 vouchers funded during fiscal year 2006. However, the specific dollar amount and number of tenants is dependent on the number of properties that pre-pay, their location, and the market conditions at the time.

WATER AND WASTEWATER

Question. The budget request proposes to change the calculation of the interest rate for water and wastewater grants from the fixed rate of 4.5 percent to a floating rate set at 60 percent of the market rate.

Please take a moment to explain the reason why this proposal has been included and how it will affect the current program.

Answer. The reason the President's budget proposed a change in the method it uses to determine its loan interest rates is to enable communities to better use available loan funds and make the lowest rate more reflective of changing market rates. Under our current method of establishing a three-tier interest rate, the market rate is indexed quarterly to the Bond Buyer 11 GO Bond Index. The poverty rate is fixed at 4.5 percent and the intermediate rate is halfway between the market and poverty rates.

In the last 12 quarters the market rate has been at or below 4.5 percent 7 times, effectively reducing our three-tier to a one-tier interest rate schedule. To avoid this, we are proposing to index all three interest rate tiers to the 11 GO Bond Index. The market rate will remain at the 11 GO Bond Index, the intermediate rate will be 80 percent of the 11 GO Bond Index and the poverty rate will be 60 percent of the 11 GO Bond Index. The final rate will be 3.2 percent for fiscal year 2007.

Question. Most importantly, would this be an administrative change or will it require legislative language?

Answer. The change in rate calculation is administrative.

ORGANIC RESEARCH

Question. Please provide information on all current research on organic agriculture performed by ERS and ARS or funded through CSREES.

Answer. A search of the Current Research Information System indicates that there are 187 active organic agriculture research projects supported by CSREES. These projects are being conducted in 42 States with 57 different cooperating land-grant university or other institutional partners. In total, these projects support an equivalent of 46 scientist years, and the funds are fairly evenly distributed across the four CSREES regions. The \$10.2 million invested in these 187 projects is further leveraged by the State partners to increase funding support to \$20.5 million for organic research.

An assessment of all Agricultural Research Service research activities supporting organic agriculture has been completed. Of \$18.4 million spent by ARS that directly benefits organic agriculture, \$4.7 million is spent for research conducted in the field under conditions that are the same or similar to certified organic. Other ARS research that indirectly benefits organic agriculture totals \$44.1 million. ARS now has a national program leader for Integrated Agricultural Systems who oversees ARS organic agriculture research. Based on the customer input from the 2005 ARS organic agriculture workshop, ARS scientists are encouraged to incorporate organic agriculture objectives into research plans as part of the next national program cycle. New organic field research sites are being planned at Ames, Iowa, Mandan, North Dakota, and Fort Pierce, Florida, in addition to field research already conducted at Salinas, California, Lane, Oklahoma, Beltsville, Maryland, Dawson, Georgia, Morris, Minnesota, Weslaco, Texas, and Orono, Maine. ARS is developing a national strategy to identify the greatest barriers to organic agriculture production in different regions of the country. ARS will use organic agriculture customer input to develop specific research problems for the 2007 Integrated Agricultural Systems National Program Action Plan.

The Economic Research Service has been tracking organic acreage and livestock, by commodity since 1997, and partnered with NASS in increasing the availability of production data and statistics. More recently, ERS has gotten involved in organic marketing and social science research, including work comparing United States to European organic policy, issues and trends in retailers and handlers and consumer data analysis. The most recent addition to their research projects is data tracking wholesale organic produce prices. In terms of leading the research agenda, ERS has sponsored two workshops in the past 5 years to frame the consumer, production and environmental issues that warrant more research.

The National Agricultural Library, through its Alternative Farming Systems Information Center, general reference and referral services, document delivery services and collection development provides access to and/or can obtain access to published research on organics conducted outside the United States. Some of the information is made available through the AFSIC Web site, the NAL Agricola database and through other databases to which NAL has access. NAL helps organic farmers to locate information on organic research that is conducted nationally and internationally.

Question. Please provide information on all statistics on organic agriculture published through NASS.

Answer. Only one directed question on organic sales was included in the 2002 Ag Census, and NASS reported statistics for the value of certified organically produced sales by total sales and number of farms. The 2007 Census of Agriculture was modified to address the increasing data needs of the organic sector and will ask a number of new questions of producers in Section 22. Respondents will be asked whether the operation is a certified organic operation, how many acres were used for organic production, the total value of sales for crops and livestock produced and sold, and how many acres were being converted to organic production in the past year.

NASS also conducts the Agricultural Resource Management Survey (ARMS) that asks very specific questions about production practices, including organic, which together with other detailed data could provide rich analyses of the financial performance, sociodemographic and marketing choices and trends of organic producers. This cooperative arrangement with the Economic Research Service is likely to increase the level of data and research available. For example, the ARMS for dairy, added an oversample of 700 organic dairy farmers to this survey. An expanded section on pasture, organic certification, and other questions to capture aspects of organic production that can be contrasted with conventional dairy production systems were also added. A similar project is underway to explore the costs and production practices of organic soybean producers through the ARMS survey program.

Question. How would the amount of research and statistical information available for organic agriculture compare to that for other sectors of agriculture?

Answer. According to the World Trade Organization's International Trade Centre, certified organic products make up between 2 and 2.5 percent of total retail food sales in the United States. ARS research in direct support of organic agriculture is \$18.4 million, or 1.4 percent of its total budget in fiscal year 2005. CSREES research in direct support of organic agriculture is \$10.2 million or 0.8 percent of its total budget in fiscal year 2005.

The data on organic production has been relatively scarce, a situation that is being remedied with the ERS/NASS ARMS, and will also improve with the addition of questions to the 2007 Ag Census. With the increasing inclusion of questions on organic sales, acres and production practices relevant to organic producers, comparable data will be available on organic producers.

On the marketing side, data and statistics on organic agriculture are less available than for conventional products. Again, ERS has taken lead in increasing the amount of information available for some products and geographic markets, but until the Agricultural Marketing Service (AMS) adapts their price reporting to include more delineations for organic product lines, and explores how prices are discovered differently, for example through direct markets, little useful price information will be available to organic producers and marketing channel partners. AMS is currently making changes that will result in greater availability of marketing information on organic products.

Question. What are the organic agriculture's greatest areas of need for research and statistical information?

Answer. The research topics identified at the ARS Organic Agriculture Customer Workshop in January 2005 suggest where more research is needed in core areas of production, processing, resource management and economics. These topics include how organic production contributes to different aspects of food quality, safety and security, developing production systems to increase profitability, ways to manage and measure the health of soils, the environmental benefits from organic production

systems, ways to achieve the greatest productivity in organic production, the contributions of organic production to overall sustainability, genetic materials specific to organic production systems, and biologically-based strategies to manage diseases, weeds and insect pests.

A recent white paper on organic agriculture developed by CSREES identified a number of research priorities that will facilitate organic production. The research priorities include developing an improved understanding and management of soil fertility, pest management, livestock production and health; the development and evaluation of adapted cultivars and breeds, assessment of the long term impacts of whole-farm systems; the evaluation of the economic, business and social aspects of various organic production systems to improve grower returns, reduce market barriers, marketing strategies to increase consumer demand; the development of science-based information on which to base organic regulations, thereby assuring rational regulation, providing options to overcome current constraints, and assisting in overcoming the increasing number of complex, technical barriers to foreign trade; assessment of the production and processing practices for impact on consumer valuation of various attributes such as identifying: varieties with enhanced flavor and nutrition, improved practices to add value and enhance shelf life and quality, effects of production systems on product nutrition and quality, and mechanisms to minimize GMO contamination of organic products; and the identification of the marketing and policy constraints on the expansion of organic agriculture, especially among conventional growers who would otherwise transition to organic.

The high interest in, and widespread use of, data collected by the ERS on organic production scale and growth would suggest that any new data that can be collected on certified acres, including the detailed information collected in the Agricultural Resource Management Survey, would be a good investment. But, after consultation with the Economic Research Organic Work team, the true need is information on prices, marketing margins, marketing practices, trade data and other information that would allow for better research on competitiveness, profitability, emerging marketing trends and how the organic food market performs under its evolving growth and change in structure.

AVIAN FLU

Question. Please provide information on all current USDA research on highly pathogenic avian influenza. Please provide a brief description of the research topic, where it is being performed, and the funding history by fiscal year.

Answer. Avian influenza (AI) presents a major disease threat to the U.S. poultry industry. The recent highly publicized outbreak of H5N1 avian influenza (AI) in chickens and people in Hong Kong illustrates the potential public health concerns that may surface as a result of AI infections. In 1997, a deadly form of AI (H5N1) infected poultry farms and live poultry markets in Hong Kong and was associated with 18 hospitalized human cases, of which six died. More recently, a similar virus has been seen spreading in poultry throughout Asia and Europe and is occasionally infecting humans (approximately 200 cases and 100 deaths). Less pathogenic strains of avian influenza have caused problems in many U.S. turkey flocks and live poultry markets since the 1960's, although few commercial chicken flocks were involved. Because of research on AI viruses in recent years we now know that some viruses can rapidly change from causing only mild disease to ones that cause a deadly disease in chickens. It is likely that the longer a virus infects commercial poultry, the more likely it is to cause the severe form of the disease. This research seeks to understand the changes that are required for this shift in ability to cause disease. The research also seeks to control the presence of AI viruses in poultry by development of new and more effective vaccines and to develop tests to more rapidly diagnose infection in chickens.

It is crucial that we both seek ways to eradicate or control these AI viruses and to understand their potential for a virulence shift. The research takes several approaches to these goals including: identifying and evaluating the best vaccination approaches to control the disease; identifying the source(s) and family relationships of the viruses; characterizing the events leading to increase in virulence; characterizing the chicken's response to infection with AI viruses; and characterizing the factors that allow AI viruses to cross infect other species of animals. To aid in the detection and control of the virus, ARS developed and APHIS validated a rapid detection assay for Avian Influenza Virus (AIV), which is now widely deployed into the National Animal Health Laboratory Network.

For the control of low pathogenic AI outbreaks, vaccination is being more commonly considered, because it can potentially help control an outbreak at a lower cost than depopulation programs. At ARS, the use of currently available and new vac-

cination strategies are being investigated for the control of AI. Currently only two types of vaccines are available for use for AI, killed adjuvanted vaccines and fowlpox-vectored vaccines. Our research has shown that to get optimal protection from these vaccines, it is important to match the vaccine to the challenge strain. A better match of vaccines allows less virus to be shed from vaccinated but infected birds. Additional research has shown that when vaccination is used on a widespread basis antigenic drift, similar to what is seen with human influenza viruses, can be a problem for decreased effectiveness for the vaccine. Additional research has been focused on using viral-vectored or recombinant vaccines for AI including fowlpox vectored vaccines, replication incompetent alphavirus vectors, and Newcastle disease virus vectored vaccines. All three of these vaccines types have shown to provide protection from influenza challenge, and can provide the advantage of use as a DIVA (differentiate infected from vaccinated animals) vaccine. These vaccines are still being evaluated to determine if they have significant advantages over commercially available vaccines and can be produced in a cost-effective manner. Additional vaccine technologies, including the reverse genetics approach to create AI viruses that can also be used with the DIVA approach have also been shown to be effective.

To aid in the understanding of AI epidemiology, AI viruses received recently from U.S.A. (low pathogenic), Hong Kong, Italy, El Salvador, Chile, Netherlands, Indonesia, Viet Nam, and South Korea are being classified for disease causing potential. Research studies include molecular characterization related to the lethality of the viruses, the search for genetic markers for this lethality, and investigating the epidemiology and spread of the viruses. Pathogenic potential of the viruses is being assessed in disease free chickens held in biocontainment facilities. ARS is developing and evaluating techniques to predict which mild forms of viruses will change to more deadly forms of the AI virus. Furthermore, ARS is assisting the Centers for Disease Control and Prevention with evaluating recombinant vaccines to assure human vaccines will not cause disease in poultry.

With the supplemental funding received in fiscal year 2006, ARS plans to conduct the following:

- research on developing and validating existing and new vaccines to ensure that they can be distributed to domestic poultry or wild waterfowl before, during, or after an outbreak to help them build immunity and resistance to AI infection. In addition, ARS will provide direct support to the appropriate in-country counterparts in Asia for testing and evaluating different vaccine formulations via challenge studies; in addition to virus sequencing, cross hemagglutination inhibition titers, and neutralization titers.
- ARS with partners will develop rapid, State laboratory based or site-deployable tools and other assays that will allow rapid detection and classification of AI viruses. The tests will be accurate for detecting AI virus in various samples including birds (domestic and wild) and environmental specimens. The other assays will include: (1) development, bench validation and limited field validation of a real-time RT-PCR (RRT-PCR) for screening of wild birds for AI viruses; (2) microarray test development for AI virus classification; (3) more sensitive penside tests for avian influenza.
- genome sequencing of poultry outbreak and wild bird AI viruses in SEPRL archive and those obtained by on going surveillance, and characterize them biologically. ARS will sequence genomes and then mine the sequence data for viral evolution, relationships, and determinants of virulence as well as identify diagnostic sequences and potential vaccine antigens. Viruses will be studied to determine genomic changes that define host adaptation and specificity and changes necessary for AI viruses to cross to new avian and mammalian hosts.
- ARS with partners will conduct epidemiological studies to identify the risk factors for transmission of virus between farms and biosecurity mitigation steps to reduce transmission. In addition, targeted surveillance of wild birds and poultry at high risk for avian influenza will be conducted to assess risk of introduction to farms.

ARS supports APHIS and poultry industry action programs with epidemiology, molecular virology, pathogenesis research, and technical assistance on AI. ARS is directly assisting APHIS in trade negotiations of poultry products by determining the risk for low and high pathogenicity AI in poultry meat and the ability of pasteurization to inactivate AI in egg products.

The funding for Avian Influenza Disease research for fiscal years 2005, 2006 and 2007 are provided below for the record.

	Fiscal year 2005	Fiscal year 2006	Fiscal year 2007
Athens, GA	\$2,171,200	¹ \$2,344,400	\$5,418,400

¹ Does not include the fiscal year 2006 supplemental funding of \$7 million.

RENEWABLE ENERGY RESEARCH

Question. Please provide information on all current USDA research on renewable energy. Please provide a brief description on the research topic, where it is being performed, and the funding history by fiscal year.

Answer. Both the Agricultural Research Service (ARS) and the Cooperative State Research, Education, and Extension Service (CSREES) support renewable energy research. ARS, as the Department of Agriculture's in-house research agency, has a nationwide network of facilities and research scientists who conduct basic and applied research for the purpose of solving problems associated with regional and national high priority issues, including renewable fuels, affecting producers and consumers of U.S. agricultural products ARS cooperates closely with the Cooperative State Research, Education, and Extension Service (CSREES) and the university system.

ARS conducts a national Bioenergy and Energy Alternatives Research Program (http://www.ars.usda.gov/research/programs/programs.htm?NP_CODE=307), with the vision of meeting America's energy needs with renewable resources. The mission of this research addresses national goals of improving energy security, environmental quality, and the economy, with an emphasis on the rural economy. Major program goals include:

- Sustainable energy from agriculture that is energy efficient and economic.
 - Understanding the recalcitrance of biomass.
 - Exploiting the potential of molecular biology to improve quantity and quality of agricultural biomass feedstocks and to improve the effectiveness of conversion organisms.
 - Matching the characteristics of biomass feedstocks with the requirements of conversion organisms.
 - Devising value-added biofuel coproducts.
 - Meeting on-farm and rural community energy needs for liquid fuel, electricity, and heat.
 - Reduce energy cost for agricultural operations.
- To achieve these goals, research is conducted from feedstock, including crops, crop residues, byproducts, and wastes, to fuel, including ethanol, biodiesel, biogas, and hydrogen. Examples include:
- Genetic modification of plants to improve the quality characteristics and increase the quantity of feedstock produced.
 - Technology to sustainably produce and harvest the biomass, to efficiently handle, add value, store, and deliver the feedstock, and to quickly measure its quality at any point in the process.
 - Technology for biological or thermochemical conversion of feedstock to fuel and coproducts. This includes processes, organisms, and product separation for energy efficient and economical application for use on-farm, in local community size plants, and in large biorefineries.
 - Technology to improve quality, performance, and ease of using the biofuels produced.

Successful completion of the proposed work will promote the enhanced use of agricultural commodities by providing additional markets for farmers and for fuel producers. The public will benefit from reduced environmental pollution and enhanced energy security associated with using a domestic resource that reduces dependence on imported petroleum and improves the balance of trade. Outcomes and impact include:

- Successful and sustainable systems of bioenergy production
- Energy crops with greater yield and more desirable properties
- Energy efficient conversion of herbaceous crops and crop residue to ethanol
- Biodiesel with reduced emissions and better performance
- Less costly biofuels
- Distributed rural energy production for farm, rural community, and national needs
- Enhanced rural economy

With its nationwide capabilities in natural resources and sustainable agricultural systems, in quality and utilization of agricultural products, in crop production and management, and in animal production and management, ARS has the research capacity and is well positioned to lead and to partner with other Federal agencies,

States and private interests to develop energy efficient, economical, sustainable, and socially acceptable technologies to make agriculture energy independent and for agriculture to be a major supplier of energy for the Nation.

Components of ARS Bioenergy and Energy Alternatives Research are conducted at the following locations:

- Energy Crop research:
 - Western Regional Research Center, Albany, California:
 - Genetic manipulation to develop crops more easily converted to ethanol.
- Lincoln, Nebraska:
 - Grasses with improved biomass yield and quality and sustainable grass production management practices.
- St. Paul, Minnesota:
 - Legumes with improved biomass yield and quality and sustainable legume production management practices.
- Corvallis, Oregon; El Reno, Oklahoma; Mandan, North Dakota; Tifton, Georgia; and University Park, Pennsylvania:
 - Germplasm, physiology, and management technology for herbaceous energy crop production on agricultural lands managed for conservation.
- Madison, Wisconsin:
 - Harvesting, handling, storage, and characterizing quality of energy crops and plant residues.
- Ethanol research:
 - Eastern Regional Research Center, Wyndmoor, Pennsylvania:
 - Process technologies and systems that reduce cost of ethanol production.
 - Environmentally sustainable processes to maximize ethanol yield from starch.
 - Processes for generating high value products from parts of corn not converted to ethanol.
 - Processes to integrate production of ethanol from stover and from grain.
 - National Center for Agricultural Utilization Research, Peoria, Illinois:
 - Development of superior microbes and enzymes for conversion of agricultural commodities to ethanol.
 - Processes for conversion of cellulosic agricultural materials to ethanol.
 - Technologies to recover valuable coproducts during ethanol production.
- Western Regional Research Center, Albany, California:
 - Integration of plant molecular biology, genomics, bioinformatics, and plant transformation to produce ethanol from cereal crops.
 - Enzymes, which work at lower temperatures, to improve energy efficiency.
 - Biomaterial membranes that improve separation of water and ethanol.
- Richard B. Russell Research Center, Athens, Georgia:
 - Characterization of herbaceous plant parts suitable for conversion to ethanol.
 - Methods to evaluate plant material composition.
 - Enzymatic processes to extract carbohydrates from corn stover.
- Brookings, South Dakota:
 - Processes and products to enhance value of distillers dried grains.
 - Converting cellulosic ethanol by-products into value-added coproducts.
 - Processes that add value to cellulosic feedstocks on the farm.
- Biodiesel research:
 - Eastern Regional Research Center, Wyndmoor, Pennsylvania:
 - Enzymatic processes to convert animal fats, vegetable oils and restaurant greases into biodiesel.
 - Burning of fats and oils as heating fuel.
 - National Center for Agricultural Utilization Research, Peoria, Illinois:
 - Quality and performance, including storage stability, cold flow, and emissions reduction, of diesel fuels and additives produced from vegetable oils.
 - Use of biodiesel as aviation fuel.
- Bushland, Texas:
 - Performance and emissions of biodiesel as affected by feedstock.
 - On-farm biofuel production.
- Other renewable energy research:
 - Beltsville, Maryland:
 - Production of electricity from animal manure via anaerobic digestion and use of the methane produced to generate electricity.
 - Wyndmoor, Pennsylvania:
 - Thermo-chemical conversion of plant biomass to hydrogen.
 - Peoria, Illinois:
 - Biological production of hydrogen.
- Bushland, Texas:

—Systems to provide renewable energy for on-farm and remote agricultural needs.

CSREES RENEWABLE ENERGY RESEARCH

CSREES with Hatch Act, McIntire-Stennis, Evans-Allen, National Research Initiative, Special Research Grants, and Federal Administration funding supports research projects focused on renewable energy. CSREES is the lead agency for the USDA Small Business Innovation Research Program. Funding for this program comes from CSREES and other USDA agencies and also supports projects on renewable energy. The majority of projects address technical obstacles to the cost-effective conversion biomass to energy. The majority of conversion technologies are biological or thermo/chemical conversion of vegetable oils, starches and lignocellulosic materials into biofuels. The information that is requested is listed below according to the funding authority.

1. Competitive awards through the National Research Initiative

(1) NOVEL BIOMASS PROCESSING CHEMISTRY

START: 01 September 2003.

COMPLETION DATE: 31 August 2006.

TOTAL BUDGET: \$175,000.

PROJECT LOCATION: Institute of Paper Science And Technology, Atlanta, Georgia.

OBJECTIVES: The objective of this program is directed at using ionic liquid-based systems to develop novel oxidative/reductive chemistry that will fragment and convert lignin into high-value, low molecular weight chemicals that could be employed as a feedstock for the plastic and chemical industries. This research program will take advantage of recent advances in ionic liquids to develop new chemical reactions that will convert waste biomass lignin into high-value chemical components including phenol derivatives for adhesive/polymer industry, polycarboxylate derivatives that will be employed by the detergent and metal chelant industry and/or lignin fragments for polymer synthesis.

(2) PROCESS FOR XANTHOPHYLLS FROM CORN

START: November 2003.

COMPLETION DATE: 14 November 2006.

TOTAL BUDGET: \$142,000.

PROJECT LOCATION: University of Illinois, Urbana, Illinois.

OBJECTIVES: The overall objective is to develop a process for the production of xanthophylls from corn using a combination of solvent extraction, membrane technology and chromatography. There are two specific objectives in this proposed research: (1) Screen membranes for their separation characteristics and stability in organic solvents, and optimize performance parameters of selected membranes for the concentration of xanthophylls extracted from corn. (2) Develop a method for producing high-purity xanthophylls by chromatography. This project benefits human health by creating a low-cost source of lutein and zeaxanthin. It also benefits the dry-grind ethanol industry by creating a high-value coproduct that can offset the need for tax waivers and subsidies. Xanthophylls can generate an income of \$1–2 per bushel of corn which is 25–33 percent increase in net revenue with no additional materials coming in to the plant.

(3) GENETIC ENGINEERING OF YEAST FOR CO-FERMENTING ALL FIVE CELLULOSIC SUGARS TO ETHANOL

START: 01 September 2003.

COMPLETION DATE: 31 August 2005.

TOTAL BUDGET: \$227,003.

PROJECT LOCATION: Purdue University, West Lafayette, Indiana.

OBJECTIVES: Researchers have developed recombinant *Saccharomyces* yeast that can effectively ferment xylose, a major sugar molecule in cellulosic biomass, to ethanol. The objective of this project is to make the yeast also able to effectively ferment other sugars in cellulosic biomass so that the engineered yeast can be more effective in using this ideal feedstock to produce fuel ethanol.

(4) SORGHUM AS A VIABLE RENEWABLE RESOURCE FOR BIOFUELS AND BIOBASED PRODUCTS—SHORT TITLE: SORGHUM BIOCONVERSION RESEARCH (SBR)

START: 01 September 2004.

COMPLETION DATE: 31 August 2007.

TOTAL BUDGET: \$450,000.

PROJECT LOCATION: Kansas State University, Manhattan, Kansas.

OBJECTIVES: Identify hybrids, and elite germplasm, with genetic variation for a range of selected compositional characteristics (starch, starch type, hardness, protein, grain phenotype, etc). Develop a coordinated understanding of the relationship among composition, chemical structure, physical features, and the availability of fermentable/usable-stored glucose (starch). Expand a demonstrated micro-fermentation system to allow higher-throughout screening of test samples, and test conditions, for the production of ethanol and lactic acid. Integrate the results from the above experiments to determine the impact of compositional, structural, and physical factors on the efficiency of bioprocessing, and to identify the key interactions impacting fermentation yield from sorghum grain. Create an Energy Life Cycle Analysis Model to quantify and prioritize the savings potential from factors identified in the above research, based on both energy and economics.

(5) **PROTEOMIC ANALYSIS OF ETHANOL SENSITIVITY AND TOLERANCE IN THERMOPHILIC AND ANAEROBIC BACTERIA**

START: 01 September 2004.

COMPLETION DATE: 31 August 2006.

TOTAL BUDGET: \$330,000.

PROJECT LOCATION: University Of Kentucky, Lexington, Kentucky.

OBJECTIVES: The specific objectives are to: Characterize alterations in the proteomic profile of *C. thermocellum* and *T. ethanolicus* in response to ethanol challenge. Determine the proteomic profile of ethanol resistant strains. Examine if proteomic changes elicited by ethanol are similar to those caused by environmental stresses including temperature, pH, and organic solvents. Evaluate alternative approaches to identify and quantify changes in proteomes of thermophilic bacteria.

(6) **AN INTEGRATED APPROACH TO REDUCED RISK OF PHOSPHORUS POLLUTION OF SURFACE WATERS IN CROP-LIVESTOCK BASED MANAGED ECOSYSTEMS OF THE MIDWEST**

START: 15 August 2005.

COMPLETION DATE: 14 August 2009.

TOTAL BUDGET: \$490,000.

PROJECT LOCATION: Nebraska Corn Development, Utilization and Marketing Board Lincoln, Nebraska

OBJECTIVES: Develop methods for removing phosphorus (P) from corn milling by-products, or improving P availability through while minimizing the loss of feed value for ruminants and for enzymatic degradation of phytate to P to produce value added products such as inositol, inositol phosphates and struvites. Develop a decision tool on the cost effectiveness of composting livestock manure to improve the economics of transporting manure greater distances to more land for agronomically and environmental sound application rates. Determine the effects of manure applied several years previously, of deep incorporation of surface soil with excessively high soil P, and the effects of setback alternatives on the potential for P delivery to surface waters. Validate and calibrate a watershed characterization model and two P-indexes for assessment of the potential for P delivery to surface waters. Provide education to various stake-holders on P related issues.

(7) **LIGNIN BLOCKERS FOR LOWER COST ENZYMATIC HYDROLYSIS OF PRETREATED CELLULOSE**

START: 01 September 2004.

COMPLETION DATE: 31 August 2007.

TOTAL BUDGET: \$401,000.

PROJECT LOCATION: Thayer School of Engineering, Hanover, New Hampshire.

OBJECTIVES: The primary goal is to more fully develop lignin blocker technology for biological conversion of pretreated cellulosic biomass to glucose that can be converted to ethanol and a range of other products either biologically or chemically. In particular, to understand and apply lignin blockers to reduce enzyme loadings and costs for enzymatic digestion of pretreated cellulose to glucose. The first objective of the research is to screen different soluble proteins and other promising compounds not yet considered with pretreated biomass to define a library of promising lignin blockers that could reduce cellulase loadings and costs. The second objective is to measure cellulase and blocker adsorption and desorption when applied with different lignin blockers and cellulase addition strategies and pretreatment conditions. The third objective is to define the impact of the most promising lignin blockers on enzymatic hydrolysis of pretreated cellulose to determine how performance of the system is influenced by amounts of lignin blocker, cellulase, cellulose, and lignin; temperature; pH; glucose accumulation; beta-glucosidase supplementation; and ingredient addition strategies. The fourth objective is to investigate the performance of the most promising lignin blockers when used with pretreated cel-

lulose in simultaneous saccharification and fermentation (SSF) to define the impact on performance versus cellulase use because SSF eliminates equipment and speeds rates, yields, and concentrations of ethanol production while inhibiting invasion by unwanted organisms. The final objective is to develop models to relate enzymatic hydrolysis rates and yields to concentrations of lignin blockers and cellulase; the cellulose, lignin, and other component content of pretreated biomass; process conditions; and the use of other ingredients (e.g., supplemental beta-glucosidase). This research element will focus on improving the understanding of how adsorption and desorption of lignin blockers and cellulase are influenced by processing conditions and how they in turn affect the performance of hydrolysis systems and use that information to project pathways to further improve performance

(8) NOVEL MEMBRANE TECHNOLOGY FOR VOLATILE BIOPRODUCT RECOVERY FROM FERMENTATION BROTHS

START: 01 September 2003.

COMPLETION DATE: 31 August 2006.

TOTAL BUDGET: \$168,700.

PROJECT LOCATION: New Jersey Institute of Technology, Newark, New Jersey.

OBJECTIVES: Develop a novel composite membrane system from surface modified porous hydrophobic polypropylene (PP) hollow fibers and an appropriate liquid membrane in the macropores of the PP hollow fibers and determine their separation performances from model solutions of individual bioproducts, such as butanol, ethanol, acetic acid, propionic acid and butyric acid under the influence of permeate side vacuum. Study a batch fermentation system externally coupled with the novel membrane device and total broth recycle for the production and recovery of acetone, butanol and ethanol (ABE) from *Clostridium acetobutylicum*. Study batch fermentation also with total broth recycle for the production and recovery of propionic acid.

(9) BEYOND THE BARRIER: ETHANOL FROM LIGNOCELLULOSIC BIOMASS USING METABOLIC ENGINEERING

START: 01 SEP 2004.

COMPLETION DATE: 31 AUG 2007.

TOTAL BUDGET: \$451,000.

PROJECT LOCATION: North Carolina State University, Raleigh, North Carolina.

OBJECTIVES: The main objective is to use genetically engineered lignocellulosics as the feedstock for fuel ethanol production. Produce desirable transgenic trees for ethanol conversion. Establish systems for high throughput, micro-scale component analysis of treatment streams. Determine the chemical and enzymatic digestibility of the transgenic materials and their ability to ferment ethanol, with the emphasis of using Novozyme's efficient, low cost cellulase cocktail. Perform cost versus performance studies of sugar/ethanol production from transgenics with diminished recalcitrance.

(10) ECONOMIC IMPACTS FROM INCREASED COMPETING DEMANDS FOR AGRICULTURAL FEEDSTOCKS TO PRODUCE BIOENERGY & BIOPRODUCTS

START: 15 August 2003.

COMPLETION DATE: 31 August 2006.

TOTAL BUDGET: \$136,000.

PROJECT LOCATION: University of Tennessee, Knoxville, Tennessee.

OBJECTIVES: The overall objective of this proposed project is to develop a national bioenergy and bioproduct expansion curve. As bioenergy and bioproduct production increases, demand for, and price of agricultural products will increase. This analysis will quantify these expected increases considering various demand quantities of bioenergy and bioproducts.

(11) REGULATION OF N-ACYLETHANOLAMINE METABOLISM IN SEEDS

START: 01 September 2002.

COMPLETION DATE: 30 September 2006.

TOTAL BUDGET: \$145,000.

PROJECT LOCATION: University of North Texas, Denton, Texas.

OBJECTIVES: We propose to continue our efforts to examine the catabolism of N-acylphosphatidylethanolamine (NAPE) and N-acylethanolamine (NAE) in plants. Our approach is targeted toward the functional characterization of candidate NAE amidohydrolase(s) from several plant sources (*Arabidopsis thaliana*, *Medicago truncatula* and cotton) as well as a detailed characterization of several putative NAPE-phospholipase D(s) identified in germinated cottonseeds. The overall goal will be to place this new biochemical and molecular information into the physiological context of seed development, germination and seedling growth, stages determined previously to be active in NAPE/NAE metabolism, in an effort to improve our under-

standing of the role(s) of this pathway in plants. Specifically, to (1) functionally identify and biochemically characterize plant NAE amidohydrolase(s) (or fatty acid amide hydrolase, FAAH), (2) functionally identify and biochemically characterize seed-derived NAPE-phospholipase D(s), and (3) evaluate NAE amidohydrolase and NAPE-phospholipase D expression during seed development, desiccation, imbibition, germination, and seedling growth.

(12) VAPOR PHASE BIOREACTORS TO TREAT AIR POLLUTANTS EMITTED FROM CORN-BASED ETHANOL PRODUCTION FACILITIES

START: 01 September 2003.

COMPLETION DATE: 31 August 2006.

TOTAL BUDGET: \$178,500.

PROJECT LOCATION: University of Texas, Austin, Texas.

OBJECTIVES: The primary objective of the project is to develop a vapor phase bioreactor system specifically optimized to treat the hazardous air pollutants (HAPs) and volatile organic compounds (VOCs) emitted from corn-derived ethanol production facilities. Specific objectives include: (1) Assess the biodegradability of VOC/HAP mixtures representative of those emitted from ethanol production facilities; (2) Evaluate the effect of key operating parameters on pollutant removal in vapor phase bioreactors treating ethanol plant emissions; (3) Evaluate the feasibility of using a hybrid biofilter/biotrickling filter system to treat plant emissions.

(13) QUANTITATIVE ASSESSMENT OF CARBOHYDRATE, LIGNIN AND EXTRACTIVE DEGRADATION PRODUCTS IN PRETREATED LIGNOCELLULOSE

START: 01 September 2003.

COMPLETION DATE: 31 August 2006.

TOTAL BUDGET: \$175,000.

PROJECT LOCATION: Baylor University, Waco, Texas.

OBJECTIVES: The overall project goal is to improve fundamental quantitative understanding of the effect of pretreatment conditions on the production of a wide range of hydrolysate degradation products. Objectives to achieve this goal are to: (1) Develop a Liquid Chromatography-Mass Spectrometry method that will quantify diverse biomass degradation products and (2) Correlate product concentrations with pretreatment conditions of temperature, reaction time, pH, severity, and combined severity.

(14) CELLULASES FOR BIOMASS CONVERSION FROM TRANSPLANTIC PLANTS

START: 01 September 2005.

COMPLETION DATE: 31 August 2008.

TOTAL BUDGET: \$399,963.

PROJECT LOCATION: University of Wisconsin, Madison, Wisconsin.

OBJECTIVES: Enhance translation efficiency leading to higher expression levels through N-terminal extension addition to three different cellobiohydrolases. Compare the efficiency of expression of the three enzymes at the *trnI/A* locus and *trnG/fm* locus. Combine chloroplast-derived cellobiohydrolase expression with existing nuclear-derived E1cd endoglucanase expression through breeding.

(15) PHOTOSYSTEM I NANOSCALE PHOTODIODES FOR CREATING PHOTOELECTROCHEMICAL DEVICES

START: 01 December 2004.

COMPLETION DATE: 30 November 2006.

TOTAL BUDGET: \$165,000.

PROJECT LOCATION: Vanderbilt University, Nashville, Tennessee.

OBJECTIVES: This project will utilize nanoscale components from green plants for solar energy conversion, exemplifying the use of natural resources to promote responsible environmental stewardship by providing alternative, biobased energy resources for our society. The overall objective of this project is to create an environmentally clean and biologically inspired photoelectrochemical device that incorporates one of nature's optimized nanoscale photodiodes, the Photosystem I (PSI) reaction center.

II. Competitive awards through the Small Business Innovative Research Program

Processing of Poultry Manure for Fuel Gas Production.—Advanced Fuel Research, Inc., East Hartford, CT, \$79,849/6 months. The objective of this phase I research is to convert poultry manure into a usable syngas fuel. Project completed, received phase II in 2005.

Modified Soybean Oil as a Deposit Control Fuel Additive.—Mountain View Systems, LLC, Canfield, OH, \$80,000/6 months. This phase I project seeks to produce

a fuel additive from soybean oil that will enhance the performance of biofuels by reducing deleterious deposits formed by biofuel combustion in engines. Project is ongoing with an extension.

Improved Quality Soy-oil Based Biodiesel Fuel.—BioPlastic Polymers and Composites, LLC, Midland, MI, \$40,000/6 months. The goal of this phase I project is to improve the process for converting soybean oil into biodiesel fuel. Project completed, received Phase II in 2005.

Cellulases for Biomass Conversion from the Transgenic Maize System.—Prodigene, Inc., College Station, TX, \$296,000/24 months. The enzymatic conversion of biomass is limited by the availability and expense of enzymatic catalysts. This phase II project seeks to develop an economically feasible method for producing cellulases in industrial scale quantities with reduced cost. Project is ongoing.

Fiscal year 2005 projects:

Biosolids for Biodiesel.—Emerald Ranches, Sunnyside, WA, \$295,606/24 months. The goal of this Phase II project is to set up a facility that is capable of extracting oil from canola seed and transforming the oil into biodiesel fuel through a base catalyzed esterification reaction. Project is ongoing.

A New Process for Biodiesel Production Based on Waste Cooking Oils and Heterogeneous Catalysts.—United Environment & Energy, LLC, Orchard Park, NY, \$80,000/8 months. The overall objective of this Phase I project is to study the feasibility of a proposed new process for cost-effective production of high value biodiesel from waste cooking oils. Project completed, applied for Phase II in 2006, pending.

Improved Quality Soy-Oil Based Biodiesel Fuel.—Bioplastic Polymers & Composites, LLC, Midland, MI, \$296,000/24 months. The overall objective of this Phase II project is to produce biodiesel from fats and vegetable oils that has better low temperatures flow properties, such as lower viscosity, is more volatile, and is more resistant to thermal breakdown than current biodiesels. Project is ongoing.

Lignin-based Polymeric Materials from Byproduct of Biomass Conversion.—NaSource Company, Newbury Park, CA, \$80,000/8 months. The conversion of agricultural biomass to biofuels produces a waste stream of materials that require further conversion to create value-added products and improve the economics of fuel production. The objective of this Phase I project is to chemically modify certain waste stream components to produce lignin-based plastics. Project is ongoing with an extension.

Processing of Poultry Manure for Fuel Gas Production.—Advanced Fuel Research, Inc., East Hartford, CT, \$296,000/24 months. The objective of this Phase II project is to develop the technology for converting poultry manure into combustible gases that can be integrated with various electrical power generation devices and have widespread agricultural use for poultry manure removal, resource recovery, and power generation. Project is ongoing.

Improved Anaerobic Digestion of Dairy Manure for Energy and High-value Coproducts.—Andgar Corporation Ferndale, WA, \$80,000/8 months. This Phase I project seeks to develop the anaerobic digestion technology to convert manure produced by dairy cows into biogas and high-quality, value-added fiber. Project is ongoing with an extension.

Camelina Sativa.—A Multiuse Oil Crop for Biofuel, Omega-3 Cooking Oil, and Protein/oil Source for Animal Feed: Great Northern Growers Cooperative, Sunburst, MT, \$80,000/8 months. The objective of this Phase I project is to evaluate a new crop for the Northern Plains States that is suitable for economic conversion into biodiesel, biolubricants, and an omega-3 fatty acid-rich cooking oil for human consumption. Project is completed, applied for Phase II in 2006, and is pending.

—*High Yield, High Efficiency Bio-refining.*—Advanced Materials and Processes, San Marcos, TX, \$79,966/8 months. The objective of this Phase I project is to develop technology to improve yields in vegetable oil processing by extracting fatty acids from vegetable oils and biodiesel without creating emulsions. Project is completed, applied for Phase II in 2006, and is pending.

—*Ultra-Clean Mobile Incinerator for Chicken Litter/Waste Disposal.*—Mel McLaughlin Company, Upper Marlboro, MD, \$80,000/8 months. The objective of this phase I is to validate the feasibility of the ultra-clean mobile incinerator for chicken litter/waste disposal. Project is completed, applied for Phase II in 2006, and is pending.

—*Cost Effective and Reliable Anaerobic Digestion for Agricultural Byproducts.*—Hansen Energy and Environmental, East Garland, UT, \$80,000/8 months. The objective of this phase I project is to study an anaerobic induced blanket reactor (IBR) system and verify performance for treating manure and food waste economically. Project is completed, applied for Phase II in 2006, and is pending.

III. Special Research Grants and Federal Administration Research grants

(1) IOWA BIOTECHNOLOGY CONSORTIUM

The primary goal of this project is to conduct fundamental and applied research aimed at enhancing the recovery and utilization of by-product materials from new and emerging biotechnology industries, with emphasis on agribusiness. Grants have been awarded from funds appropriated as follows: fiscal year 1989, \$1,225,000; fiscal year 1990, \$1,593,000; fiscal year 1991, \$1,756,000; fiscal year 1992, \$1,953,000; fiscal year 1993, \$2,000,000; fiscal year 1994, \$1,880,000; fiscal years 1995–1996, \$1,792,000 each year; fiscal year 1997, \$1,738,000; fiscal years 1998–2000, \$1,564,000 each year; fiscal year 2001, \$1,560,559; fiscal year 2002, \$1,530,000; fiscal year 2003, \$1,753,528; fiscal year 2004, \$1,789,380; fiscal year 2005, \$1,774,688; and fiscal year 2006, \$1,757,250. A total of \$30,586,405 has been appropriated. Research is being conducted at Iowa State University, the University of Iowa, and various sites throughout Iowa.

(2) FEEDSTOCK CONVERSION

The original goal of this research was to develop the mission of the Sun Grant Initiative, to identify five leading universities as regional centers, to plan individual and collaborative activities at each center, and to establish a working relationship between these universities and Federal agencies. The work supported by this grant began in fiscal year 2002, and the appropriation was \$560,000 in fiscal year 2002; \$556,360 in fiscal year 2003; \$671,017 in fiscal year 2004; \$667,616 in fiscal years 2005; and \$668,250 in fiscal year 2006. A total of \$3,123,243 has been appropriated. Research is conducted at South Dakota State University at Brookings, Cornell University at Ithaca, University of Tennessee at Knoxville, Oklahoma State University at Stillwater, and Oregon State University at Corvallis. The anticipated completion date for fiscal year 2005 funds is September 30, 2006.

(3) BIODESIGN AND PROCESSING RESEARCH CENTER

The Center will address economic viability of farmers, and will include conversion of agricultural wastes to value-added products. The Center will also provide educational and outreach programming for students, farmers, woodland owners and processors in the region. During the first year of this project, research will focus on converting animal waste to energy, as a strategy for animal waste management. The appropriation for fiscal year 2006 is \$940,500. The Center is located at Virginia Polytechnic Institute and State University, Blacksburg, Virginia. This project will be completed in fiscal year 2009.

(4) BIOMASS-BASED ENERGY RESEARCH

This research addresses conversion of biomass to ethanol, and chemicals. Through an Oklahoma State University, University of Oklahoma, and Mississippi State University Consortium, the three universities are developing an ethanol gasification-bioconversion process that utilizes all of the plant biomass, including the lignin. While making the process more cost efficient than other methods of ethanol production, this process utilizes all portions of a variety of biomass and feedstock material that includes grasses, crop residues, and processing plant byproducts. The primary goal is to develop a cost-effective biomass conversion-to-ethanol production system utilizing a unique gasification-fermentation process. The work supported by this grant began in fiscal year 2001, and the appropriation for fiscal year 2001 was \$900,016; for fiscal year 2002, \$960,000; for fiscal year 2003, \$1,142,525; for fiscal year 2004, \$1,022,929; for fiscal year 2005, \$1,014,816; for fiscal year 2006, \$1,188,000. The total amount appropriated is \$6,228,286. This work is carried out at Oklahoma State University, University of Oklahoma, and Mississippi State University. This project is expected to be completed in 3 years.

(5) INSTITUTE FOR BIOBASED PRODUCTS AND FOOD SCIENCE

The Biobased Institute funds research projects that increase profitability of agriculture, enhance human health through improved nutrition, and reduce reliance on non-renewable energy by production of biofuels, ethanol and biolubricants. Research activities include producing ethanol from biomass, and reducing the cost of producing biodiesel. Technology transfer collaborations have been set up to ensure efficient transfer to the marketplace for all products under development at the Institute. The funding for this project began in fiscal year 2003, and \$596,100 was appropriated for fiscal year 2003; \$532,838 for fiscal year 2004; \$562,464 for fiscal year 2005; \$557,370 for fiscal year 2006. A total of \$2,248,772 has been appropriated. Currently this work is being carried out at Montana State University.

(6) ALTERNATIVE FUELS CHARACTERIZATION LABORATORY

Through a national collaboration, the National Alternative Fuels Laboratory matches about half of its Federal funding with non-Federal money to work on industry fuel relevant research. The National Alternative Fuels Laboratory has developed a Federal Aviation Administration-certified lead-free ethanol- and biodiesel-containing alternative to leaded aviation gasoline. The fuel is now commercially available in South Dakota and will be introduced at airports throughout the United States in response to increasing demand. They have resolved ethanol-in-gasoline performance and environmental issues to accelerate the use of ethanol, and they have initiated new biomass fuel developments, including processes, to produce Environmental Protection Agency-approved, high-octane, emission-clean gasoline additives from agricultural resources. In addition, they have initiated and coordinated a 27-member Red River Valley Clean Cities Coalition to increase the number of alternative fuel vehicles in regional public and private fleets and have built refueling sites for disbursing fuels containing 85 percent of ethanol in North Dakota. The primary goal was to develop a database of at-the-pump-sampled conventional, reformulated, and alternative transportation fuels sold in the upper Midwest and throughout the United States to enable comparison of current and historical fuels on the basis of chemical and physical properties. This fuel database has been expanded to include how gasoline chemistry affects air quality and fuel performance. The goal of developing nonfuel products derivable from bio-oils generated via fast pyrolysis of lignocellulosic biomass was achieved during fiscal year 2005. Another original goal was to provide information on conversion of crop residues, agriculture processing wastes, high-cellulose-content municipal wastes, and other biomass materials to alternative fuels. The National Alternative Fuels Laboratory program supported the Red River Valley Clean Cities Coalition, conducted chassis dynamometer tests comparing three major brand E10 gasoline and one E8 fuel, and collaborated with the American Lung Association of Minnesota to assess the greenhouse gas reduction potential of E85 fuel.

The National Alternative Fuels Laboratory began in fiscal year 1991 and was, in part, sponsored by this grant. Federal appropriations in fiscal year 1991 through fiscal year 1993 were \$250,000 per year. Later awards were \$235,000 in fiscal year 1994; \$204,000 in fiscal year 1995; \$218,000 per year in fiscal years 1996 through 2000; \$258,430 in fiscal year 2001; \$294,000 in fiscal year 2002; \$300,037 in fiscal year 2003; \$268,407 for fiscal year 2004; \$281,728 in fiscal year 2005; and \$279,180 in fiscal year 2006. A total of \$3,960,782 has been appropriated. The work is performed at the University of North Dakota Energy and Environmental Research Center in Grand Forks.

(7) AGRICULTURE WASTE UTILIZATION

The original goal was to determine the applicability of anaerobic digestion to convert organic waste materials to energy in the form of biogas, thereby reducing the amount of organic matter for disposal. The goal has gone beyond the testing of waste materials in the digester and proceeded with a program to determine pathogen reduction by anaerobic digestion and to economically use the digested sludge. The subsequent goal is to manage the remaining solids from anaerobic digestion in an environmentally-sound manner. This research indicates that for at least *cryptosporidium parvum*, the thermophilic temperature and the anaerobic digestion process are critical in the inactivation of the organism. Field trials of using digester solids for potatoes and broccoli showed significant increases in growth over the control experiment. The work supported by this grant began in fiscal year 1998, and the appropriation for fiscal year 1998 was \$360,000; for fiscal year 1999, \$250,000; for fiscal year 2000, \$425,000; for fiscal year 2001, \$494,909; for fiscal year 2002, \$600,000; for fiscal year 2003, \$685,515; for fiscal year 2004, \$617,336; for fiscal year 2005, \$648,768; and for fiscal year 2006, \$683,100. A total of \$4,764,628 has been appropriated. Research is conducted at West Virginia State College, Institute. The principal researchers anticipate the work for this project will be completed in 2006.

(8) MICHIGAN BIOTECHNOLOGY INSTITUTE

The goal of this research is to select and develop market-viable technologies for the production of industrial products from agricultural raw materials, and to accelerate development of product and related technologies that are critical to the sustainability of the agricultural and rural economy. Accomplishments for 2005 include optimization of Ammonia Fiber Explosion treatment for conversion of crop residues for maximum recovery of glucose and xylose sugars, improved extraction of protein from distillers grains and switchgrass using an aqueous ammonia process; and identification and cloning of two genes for enhancing succinic acid production from glyc-

erol-containing waste streams. Demonstrations of technology occur throughout the United States. The work supported by this grant began in fiscal year 1989, and the following amounts have been appropriated: in fiscal year 1989, \$1,750,000; in fiscal year 1990, \$2,160,000; in fiscal year 1991, \$2,246,000; in fiscal years 1992–1993, \$2,358,000 per year; in fiscal year 1994, \$2,217,000; in fiscal year 1995, \$1,995,000; in fiscal years 1996 and 1997, \$750,000 per year; in fiscal years 1998–2000, \$675,000 per year; in fiscal year 2001, \$723,405; in fiscal year 2002, \$481,000, in fiscal year 2003, \$623,918; in fiscal year 2004, \$558,684; in fiscal year 2005, \$554,528; and in fiscal year 2006, \$549,450. A total of \$22,099,985 has been appropriated. The research is being conducted on the campus of Michigan State University and at the Michigan Biotechnology Institute. Current objectives are expected to be completed in fiscal year 2007.

IV. Hatch Act, McIntire-Stennis, and Evans-Allen Projects, the formula funded projects include about 40 projects with a renewable energy component for a total amount of approximately \$1.3 million for fiscal year 2005. However, the fifteen projects described below were selected for their innovative and cutting edge technologies that complement the portfolio of projects supported through competitive grant programs.

A. FUEL CELLS, HYDROGEN

- (1) SYSTEMS FOR BIOLOGICAL PRODUCTION OF HYDROGEN GAS, fiscal years 2004–2008, Oregon State University, Corvallis, Oregon:

The purpose of this project is to develop bacterial strains to produce hydrogen efficiently and sustainably at high rates. Mutant strains of *Clostridium acetobutylicum* and a hydrogen detection method have been developed. Using microorganisms to produce hydrogen from water, using sunlight as an energy source, or from renewable carbonaceous materials, can contribute to meeting

- (2) HYDROGEN FUEL PATHWAYS FOR TRANSPORTATION IN CALIFORNIA, fiscal years 2003–2008, University of California, Davis, California:

Decisions on how to proceed with the use of hydrogen as the fuel of the future, will have profound implications for the economy and for society. This project addresses decision-making based on sound knowledge from a wide variety of disciplines. The primary focus is the manufacture, storage and distribution of hydrogen for use in fuel cell vehicles. On-going research includes developing lifecycle environmental analysis models, innovative approaches to measure potential demand for hydrogen vehicles and designs for hydrogen energy stations. The outcome will be a set of tools and a body of knowledge to inform public sector debates and private sector investments.

- (3) BIOENERGY BASED ELECTRICAL SYSTEMS AND THEIR SAFE, EFFICIENT APPLICATIONS, fiscal years 2003–2008, Michigan State University, East Lansing, Michigan:

The purpose of this study is to develop specifications for installation and economic analysis of alternative systems to convert biogas to electrical energy. A coalition of organizations has been formed to address the conversion of livestock biomass to energy in stationary fuel cells. Proposals have been submitted to the National Electrical Code to address inadequate rules for the installation of the direct current portion of renewable energy production systems. If proposals are accepted, the result will be practical and safe rules.

- (4) FEASIBILITY STUDY TO ANALYZE THE ECONOMIC VALUE PROPOSITION AND RELATED MARKETING STRATEGY FOR A MODULAR, PRESSURIZED ANAEROBIC DIGESTION, fiscal years 2004–2005, Cornell University, Ithaca, New York:

Biogas, i.e. methane, from traditional anaerobic digestion technology is typically produced at atmospheric pressure, with little attempt made to harness this energy source for compressed natural gas or for application to fuel cells for stationary power generation. A novel design for producing biogas has been developed that delivers pure and compressed biogas that is promising for these applications. The current focus is on evaluating the commercial potential of this new technology for New York State dairy farms, and for farming economics and public policy. This technology offers a sustainable strategy to problems associated with animal manure management.

B. AGRICULTURAL RESIDUES, WASTES

- (1) BIOFUELS PRODUCTION FROM COTTON GIN WASTE AND RECYCLED PAPER SLUDGE, fiscal years 2005–2010, Virginia Polytechnic Institute, Blacksburg, VA:

Cotton gin waste can potentially be used ethanol production. Unlike other lignocellulosic feedstocks, this material is concentrated at the processing sites and therefore harvesting and transportation costs are considerably less than those for other agricultural and forestry residues. This project is developing an in situ detoxification process for the bioconversion of cotton gin waste and recycled paper sludge mixture into ethanol at high yields. Processing of agricultural residues is a value-added activity and will assist in implementing new ethanol production capacity in the southern United States.

- (2) BIOLOGICAL CONVERSION OF CROP RESIDUES TO FUELS AND CHEMICALS, fiscal years 2005–2008, North Carolina A&T State University, Greensboro, North Carolina:

This project addresses the biological conversion of crop residues to ethanol, hydrogen and succinic acid. Pretreatment steps include physical and chemical treatment followed by enzymatic hydrolysis and anaerobic fermentation. Economic and environmental evaluations will be conducted to validate commercialization potential.

- (3) ANEROBIC DIGESTION OF AGRICULTURAL AND FOOD WASTE BIOMASS FOR THE EFFICIENT PRODUCTION OF HIGH QUALITY BIOGAS, fiscal years 2004–2008, Ohio State University, Wooster, Ohio:

This research is developing a laboratory scale anaerobic digestion system to determine the metabolic and nutritional requirement of digesters for efficient conversion of diverse biomass feedstocks to biogas energy. Feedstocks used include dairy cattle manure, corn and potato based snack foods and corn silage. Biogas production must be clean and reliable for process heat, combustion or turbine engines, or solid-oxide fuel cells. A closed anaerobic digestion system of agricultural wastes offer the opportunity to produce a clean form of fuel, methane and/or hydrogen, with minimal environmental emissions of ammonia, methane and fossil fuel based carbon dioxide.

- (4) PROCESSING OF NON-TRADITIONAL AGRICULTURAL MATERIALS FOR VALUE-ADDED UTILIZATION, fiscal years 2004–2009, Auburn University, Auburn Alabama:

The purpose of this project is to develop procedure and methodology for the pelleting of poultry litter and energy crops, and to quantify the storage and handling of the manufactured pellets. This project is also testing the pelleted materials as a biofuel in a pellet furnace. Results to date indicate that energy saving up to 30 percent can be obtained with the use of a biofuel furnace in a greenhouse. The ash obtained from pellet combustion has value as a substrate component. Pelleted biofuels provide obvious environmental benefits such as use of wastes from agro-processing, reduced greenhouse gas emissions and potential on-site generation of fuel.

- (5) MICROBIAL CONVERSION OF AGRICULTURAL WASTES TO ELECTRICITY, fiscal years 2003–2004, University of Massachusetts, Amherst, Massachusetts:

The purpose of this study is to determine whether a microbe-electrode system could be used to degrade compounds that are an odor or environmental concern in animal wastes and at the same time provide electrical power that could be applied to farm operations. Fuel cells inoculated with swine waste have been shown to produce less methane and to eliminate butyrate faster than controls. Ongoing research will define under what conditions organic loads are lessened by the presence of electrodes in both fuel cell and potentiostat mode. In addition, analysis of the microbial community associated with the graphite electrodes will provide further insight into the mechanism of swine waste treatment.

C. NEW ENERGY CROPS

- (1) CARBON AND NITROGEN CYCLING AND MANAGEMENT IN ALTERNATIVE CROPPING SYSTEMS, fiscal years 2004–2007, Washington State University, Pullman, Washington:

Agricultural activities impact nitrate contamination of groundwater and particulate emissions. Alternative cropping systems can lessen negative impacts and expand environmental benefits. This project includes determining the biomass production and partitioning of Giant Reed, *Arundo donax*, at rain-fed and irrigated locations in Washington State. Results to date show biomass production potential great-

er than 20 dry tons per acre in the second year, with hemicellulose and cellulose contents similar to other grasses. Variations in wheat cultivars and exotic species are being evaluated to identify economically and environmentally sound cropping options for supplying bioenergy feedstocks.

- (2) AGRICULTURAL AND ENVIRONMENTAL BENEFITS FROM ENERGY, FIBER AND FORAGE CROPS IN ALABAMA, fiscal years 2003–2008, Auburn University, Auburn, Alabama:

This project addresses biomass crops and cropping-livestock production systems to realize agricultural and environmental benefits for the southeastern United States. Small plot experiments are underway and include switchgrass, mimosa, giant reed, fescue, ryegrass, and a comparison of productivity of goats and stocker cattle. This research will lead to commercialization of bioenergy in Alabama, especially co-firing biomass with coal to produce electricity.

- (3) SUGARCANE IMPROVEMENT FOR ARID, ALKALINE ENVIRONMENTS, fiscal years 2000–2006, Texas A&M University, College Station, Texas:

This project is developing sugarcane as an energy crop through a conventional breeding and genetic engineering program. Sugarcane has been crossed with *Miscanthus*, a perennial grass that is promising as an energy crop, and has cold resistance and good fiber quality. New sugarcane varieties will allow the grower to increase production, reduce costs, and expand into the renewable energy market.

D. COMMODITY ENERGY CROPS

- (1) VALUE-ADDED PRODUCTS FROM AGRICULTURAL COMMODITIES, fiscal years 2004–2009, Purdue University, West Lafayette, Indiana:

This research is addressing the use of mixtures of soybean methyl esters, i.e. biodiesel, with jet fuel, quantifying the physical properties and measuring turbine jet engine combustion performance and emissions. Aviation jet fuels are a unique energy fuel market due to the critical nature of fuel weight/energy density required for jet flight. A key performance limitation of soy methyl esters is the very low freezing point required for jet fuel. This project has developed a fractionation technology that removes the saturated components to produce workable fuel blends with existing jet fuels. The byproduct of biodiesel production is glycerin. This project is also evaluating the use of glycerin for aviation deicers to replace ethylene/propylene glycol deicers. The fractionation process and glycerin deicer product are being patented and Purdue is working with industrial partners to commercialize the technologies.

E. ECONOMICS

- (1) ECONOMIC ASSESSMENT OF CHANGES IN TRADE ARRANGEMENTS, BIOTERRORISM THREATS AND RENEWABLE FUELS REQUIREMENT IN THE U.S. GRAIN AND OILSEED SECTOR, fiscal years 2004–2009, Iowa State University, Ames, Iowa:

This project includes analyzing the effect of U.S. renewable energy programs as one of several factors that affect international trade and markets for corn, soybeans, and wheat. The impacts of energy policy changes on grain and byproduct markets that include gluten feed and distillers' grain are being addressed, along with the effects of the expanding bioenergy industry on the organization and performance of local and international grains markets. Specific studies include pricing in local and international grain markets, and international competitiveness of the ethanol industry compared to Brazil and the appropriate scale and organization of value-added processing. Improved private investment and public policy decisions will result from better information about the bioenergy industry.

- (2) RURAL COMMUNITIES, RURAL LABOR MARKETS AND PUBLIC POLICY, fiscal years 2002–2007, Virginia Polytechnic Institute, Blacksburg, Virginia:

Rural America is experiencing substantial demographic and economic change and its future depends on solid policy analysis. This project examines how rural markets adjust to economic change and how policy can be formulated to assist in these adjustments. Findings indicate that several sources of renewable fuels could be viable in Virginia. Biomass, particularly electricity generation through switchgrass and wood chips has more widespread viability than wind or solar technologies. Biofuels could provide additional incomes to land owners in depressed areas, but overall economic impacts are likely to be modest. Further research is needed to overcome persisting technical problems with switchgrass transport and processing leading to higher costs and lower competitiveness. It is estimated that a single 600 megawatt coal-fired power plant that co-fires with 5 percent switchgrass could improve the finan-

cial viability of 140 families and have total economic impacts of more than \$2 million per year.

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

Question. With the dairy industry responsible for cash receipts of \$27,367,857,000 (2004) representing 11.3 percent of total agriculture cash receipts for the Nation, why is the Agricultural Research Service terminating the Dairy processing and products Research Unit located at Wyndmoor, Pennsylvania, when this is the only USDA laboratory conducting research on dairy processing and products? In addition, it is my understanding that the scientists assigned to this laboratory have the capability of addressing the issue of bio-security research to help prevent the intentional contamination of the milk supply and support the dairy industry with research on prevention and removal of threat agents from the milk supply. How will this crucial research be accomplished if this program is eliminated?

Answer. The consideration to close the lab was based on the fact that the unit has largely met its objectives and the return on investment was lower than for other high priority areas of research. As mentioned, the need for the research is reduced due to improvements in milk processing, much of which has been developed by the lab. If additional work in the area of dairy processing does arise, such work could and has been done in the past at the ARS Beltsville Agricultural Research Center (Beltsville, Maryland) or the National Animal Disease Center (Ames, Iowa).

PEST MANAGEMENT ALTERNATIVES

Question. This question is directed to Under Secretary Jen regarding a letter that Sen. Rick Santorum and I sent to you on February 17, 2006. Pennsylvania is the Nation's number one producer of mushrooms, producing 59 percent of all pounds grown and valued at more than \$420 million. Trichoderma green mold remains the most serious disease faced by mushroom growers, as crop losses can quickly reach epidemic levels. Both Sen. Santorum and I urge you to strongly support the research proposal, "Resistance Management Program for Trichoderma Green Mold on Mushrooms," submitted by Drs. Peter Romaine and Daniel Royse, at The Pennsylvania State University, under the Special Grants Program—Pest Management Alternatives. This was all detailed in our February 17 letter.

Are you taking this research proposal under serious consideration and when can we expect a response to our letter?

Answer. In his response dated April 3rd, 2006, former Under Secretary Jen indicated that funds appropriated for the Pest Management Alternatives Program, which is administered by the Cooperative State Research, Education, and Extension Service, are distributed through a peer review competitive grants process. Priorities for the program are developed in consultation with stakeholders and land-grant university partners through the Regional Integrated Pest Management Centers. A major emphasis of this program is cropping systems where the loss of pest management alternatives has led to a loss of pest control or the development of pest resistance to the alternatives. The proposal from the Pennsylvania State University received full and fair consideration by the peer review panel. Applicants will be notified in the coming weeks of final funding decisions under the fiscal year 2006 Pest Management Alternatives Program.

COUNTY OFFICE RESTRUCTURING

Question. The Farm Service Agency (FSA) had intended to implement "FSA Tomorrow" last Fall. This plan intended to reduce the number of FSA county offices throughout the entire Nation through consolidation. Across the United States, 713 county offices were planned to be consolidated, in Pennsylvania alone 14 offices were planned to be consolidated bringing the number of offices to 32. While I understand the importance of efficiency, farmers work hard all day and to require them to drive long distances to see their FSA office puts further strain on their work. Under Secretary Penn, the FSA fiscal year 2007 Budget request is \$33,891,000, down from the fiscal year 2006 budget estimate of \$36,797,000; a decrease of about 8 percent.

Does the Department of Agriculture intend to implement a consolidation plan in light of the reductions in the President's fiscal year 2007 Budget request?

Answer. FSA has asked our State Executive Directors (SEDs) to conduct an independent, local-level review of the efficiency and effectiveness of FSA offices in their State. Each State's SED and State Committee will form a review team to identify

the State's optimum network of FSA facilities, staffing, training, and technology within existing budgetary resources and staffing ceilings.

There is no comprehensive national plan or formula for the ideal field structure. Each State will review its own county office system and submit a plan for the best distribution of resources.

Each SED is exploring potential joint-effort opportunities with the Natural Resources Conservation Service (NRCS) and other Department of Agriculture (USDA) agencies. State Food and Agriculture Councils (SFACs) are the primary vehicles for coordinating programs at the local level. SFACs provide a policy-level, cross-agency, decision-making and communication forum to achieve USDA's goals and objectives. In accordance with the SFAC mission, FSA, NRCS, and other agencies will work together to develop the plan for the most effective mix of local offices, staffing, training and technology.

If FSA county office closures create a disadvantage for some producers in accessing services, those producers may request a new administrative county office if there is one that will be more convenient. The flexibility of producer choice is an important part of consolidation efforts. FSA is committed to delivering farm program services through the Service Center model.

Question. If so, does the Department plan on bringing this to the attention of Congress before any implementation takes place?

Answer. After recommendations are received from a State and validated by FSA's Deputy Administrator for Field Operations, any consolidation recommendations will be shared with the potentially affected Congressional delegation. The Agency will hold public hearings and coordinate communications efforts with area farmers, ranchers, and other stakeholders. Where a decision is made to consolidate offices, Congress will be notified 120 days before a closure takes place. FSA is committed to a continued dialogue with congressional delegations and State leaders as to how best to modernize the FSA county office system.

MUSHROOM SPAWN

Question. I have been contacted by mushroom spawn manufacturers in my state regarding their difficulties in exporting mushroom spawn to certain countries which require phytosanitary certificates, for which mushrooms spawn is apparently ineligible. It is my understanding that many countries require U.S.-exported spawn to be accompanied by APHIS-issued phytosanitary certificates; however APHIS cannot issue certificates for this product. This situation is especially problematic since governments of foreign competitors are willing to issue such certificates. Therefore, American spawn manufactures are unable to obtain the necessary phytosanitary certificates, whereas foreign competitors can obtain them. As a result, our Nation's mushroom spawn exporters are in danger of losing access to some of their most valuable export markets, valued at more than \$8.7 million. Maintaining access to export markets is vital to the spawn industry in Pennsylvania and across the country.

How do you intend to resolve this problem and when can constituents in my home State expect a solution?

Answer. As you indicate, several countries require phytosanitary certificates for mushroom spawn. However, the countries in question (including China, Oman, and several others) have not provided information on what pests are associated with mushroom spawn that are of concern to them or of quarantine significance. Phytosanitary certificates are generally used to provide assurance that a shipment or product is free of specified pests, usually a list of quarantine pests provided by the importing country. Accordingly, APHIS is not able to issue phytosanitary certificates for this product since it is essentially grain inoculated with a fungus and there are no known quarantine pests associated with it. Our officials sent letters to the countries explaining that we cannot issue phytosanitary certificates without knowing what to certify the product for. We also explained APHIS policy regarding the import of mushroom spawn into the United States (the genus and species must be identified on the commercial invoice and the shipment must be free of soil) and officially requested that they adopt equivalent policies. In late March 2006, officials from APHIS and USDA's Foreign Agricultural Service met with the American Mushroom Institute to discuss this situation. We believe that the importing countries are more concerned with product quality than with plant health risk. In addition to working with our counterparts in the importing countries regarding their requirements, we are also working with USDA's Agricultural Marketing Service to find an alternative to phytosanitary certificates for mushroom spawn exports.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

SIMPLIFIED SUMMER FOOD PROGRAM

Question. Mr. Bost, as you know, the Simplified Summer Food Program is currently available in half of the States, including my home State of Wisconsin. Have States that participated in this program attracted more program sponsors, operated more program sites and served more low-income children than those States not participating in the program? Would USDA consider this program a success? Would USDA be supportive of expanding this program to additional States?

Answer. States participating in the Simplified Summer Food Program have shown an increase in participation as measured by sponsors, sites, and meals served to eligible children during the summer months. During the same time, those States not participating in the program have experienced a decrease in each of the corresponding categories. However, since the inception of the Simplified Summer Food Program, many States have also had the opportunity to operate a seamless summer feeding program through the National School Lunch Program (NSLP). Because these two initiatives have operated concurrently in these States, we are not able to identify the extent to which changes in sponsors, sites, and children result from the Simplified Summer Food Program, from the NSLP seamless summer feeding program, or from a combination of both.

Although modest, there are costs associated with expanding the program to additional States. Assuming appropriate offsets could be found, USDA would support expansion of the program because it reduces paperwork burden on sponsors and aligns the program's meal reimbursement procedures with our school-based and day care-based Child Nutrition Programs.

NSA GRANTS

Question. Mr. Bost, one of the hallmarks of the WIC program is that it goes beyond providing healthy foods to provide participants with nutrition education, breastfeeding support, and health care referrals. These services are a critical complement to the WIC food package and they are all funded with NSA grants. The WIC program has also achieved extremely effective cost-containment, particularly with regard to infant formula costs. The administrative costs associated with these accomplishments are funded with NSA grants.

In a 2001 report, the GAO found that since the late 1980s important new nutrition services and administrative demands have been placed on State and local WIC agencies without accompanying increases in NSA funds. Isn't it the case that under WIC's authorizing statute NSA grants per-participant have remained at the same inflation-adjusted level for the past 19 years? If this proposal is not adopted, will your request level for WIC still be adequate? What effect do you believe this administrative proposal will have on cost-containment?

Answer. In 1990 the guaranteed per participant nutrition services and administration (NSA) grant was \$9.32. Adjusting the grant for inflation resulted in a guaranteed NSA grant of \$14.12 in fiscal year 2006.

If this proposal is not adopted, the funds requested in the budget for food will be approximately \$152 million less than the estimated amount needed to provide food benefits to a monthly average of 8.2 million WIC participants in fiscal year 2007.

We believe this proposal will encourage State agencies to seek cost saving practices and efficiencies in program management and in providing participant services funded with NSA grants.

SPECIAL SUPPLEMENTAL PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)—
LEGISLATIVE PROPOSAL

Question. Mr. Bost, another legislative proposal included in the WIC account will prevent any State from allowing participation in the WIC program to anyone whose family income is more than 250 percent of poverty. How many States will this affect? Will it save any money? Is it true that the affected States, because their WIC participants are automatically deemed eligible, will have to re-check the eligibility of all of their participants? How many individuals would lose eligibility for WIC if the Administration's proposal to limit Medicaid adjunct eligibility were adopted? Do you intend to provide additional administrative funding for these States to conduct these eligibility exercises, or is the intent that they perform this function under the proposed new administrative limitations as well?

Answer. The President's fiscal year 2007 budget prohibits the use of funds to provide WIC benefits to individuals who receive Medicaid or who are members of a family in which a pregnant woman or infant receives such assistance unless the family income is below 250 percent of the poverty guidelines. Six States (Maryland,

Minnesota, Missouri, New Hampshire, Rhode Island and Vermont) have income eligibility cut-offs for Medicaid that are 250 percent or above for some or all categories of potential WIC participants.

Based on the estimated per-person cost in fiscal year 2007 (\$52.67), it is estimated that this proposal will result in a savings of \$2.9 million. The States affected by this proposal and the estimated savings per State are shown in the table below.

State	Number of Persons Affected	Estimated Savings (in thousands)
Maryland	859	\$543
Minnesota	2,434	1,538
Missouri	573	362
New Hampshire	143	90
Rhode Island	286	181
Vermont	286	181
Total	4,581	2,895

The President's budget proposal would continue to provide automatic (adjunctive) income eligibility based on participation in Medicaid to the vast majority of WIC participants certified in this manner. Any mother, infant, or child who can currently be certified as income eligible for WIC through Medicaid, will still be income eligible for WIC if their household income is below 250 percent of poverty. For those State agencies affected by the proposal, they will have to modify their procedures to determine the income eligibility of individuals who would have otherwise been automatically income eligible to participate in the WIC Program based on their participation in Medicaid. Based on data from the 2004 Report on WIC Participant and Program Characteristics, we estimate that approximately 4,600 individuals will be affected by the proposal to limit automatic eligibility based on participation in Medicaid to those individuals with an income level that is below 250 percent of Federal poverty guidelines.

Affected States may incur a modest increase in the needed administrative resources associated with eligibility determinations and will have to re-allocate their nutrition services and administration (NSA) funds accordingly. The proposal will not increase Federal expenditures on NSA.

WIC MANAGEMENT INFORMATION SYSTEM

Question. Last year, we provided \$20 million for a new WIC Management Information System, which we have heard for several years is desperately needed. We made the money contingent on WIC caseload being met, and it seems as though that requirement will be met this year. Has USDA yet, or do you plan to, release this money this year?

Answer. The fiscal year 2006 appropriation provided \$19.8 million (after the 1 percent rescission) for management information systems (MIS) if it was determined that adequate funds were available to meet caseload requirements without the use of contingency funds. Based on current projections of both food package costs and participation for the remainder of fiscal year 2006, we do not anticipate the need to use contingency funds to support WIC caseload. Therefore, we fully intend to allocate the \$19.8 million in MIS funding during fiscal years 2006 and 2007 to WIC State agencies for critical MIS projects.

CSFP

Question. Mr. Bost, as you know, the CSFP program is slated for elimination under the President's budget. Reasons USDA believes this is appropriate, as explained by Secretary Johanns, include the fact that seniors can move to Food Stamps, there simply isn't enough money, and the program operates only in a limited number of States. Is CSFP the only nutrition program that operates in a limited number of States? How many States currently have CSFP programs? How many, and which States have approved plans and would join if there was funding available? Is it fair to say that this program has limited participation by States because of funding, and not because States don't want it?

Answer. The CSFP is not the only nutrition assistance program that operates in a limited number of States. The Fresh Fruit and Vegetable Program (FFVP) and the WIC Farmers' Market Nutrition Program (FMNP) also operate in a limited number of States. The FFVP is currently authorized to operate in a limited number of schools in limited number of States and Indian Tribal Organizations (ITOs); cur-

rently 14 States and 3 ITOs. Funding is commensurate with the number of participating States and ITOs. The FMNP operates in 45 locations (37 States, D.C., Puerto Rico, Guam and 5 ITOs). While new State agencies may apply to participate, appropriations have been commensurate with the number of currently participating States which precludes the expansion of the program to new States.

CSFP currently operates in limited areas of 32 States, two Indian reservations, and the District of Columbia. Five States have approved plans for CSFP but are not yet participating: Delaware, Arkansas, Oklahoma, New Jersey, and Utah. CSFP's participation by States is currently limited because of funding.

Question. Mr. Bost, I understand that under the Commodity Supplemental Food Program, States are required to order their food several months in advance. Do you plan to allow States to go ahead and place orders for food for next year? What does USDA plan to do if there is a continuing resolution? If the entitlement purchases from farmers that currently go to the CSFP program end, is it safe to assume that farmers will lose money?

Answer. While the President's fiscal year 2007 budget request does not include funding for the CSFP, the program will continue to be administered in a manner that ensures program continuity until such time that Congress decides not to fund the program. Should Congress choose to adopt the President's fiscal year 2007 budget request, commodities remaining in CSFP inventories next fiscal year will be re-donated for use in other programs, including the Emergency Food Assistance Program.

We anticipate no impact on the agriculture sector from the elimination of CSFP. Food purchases that result from agricultural support activities will be maintained, but distributed through other channels.

WIC MORATORIUM

Question. Mr. Bost, last year's reauthorization legislation included measures to contain costs in these and other high-priced stores. We knew, however, it would take time for those provisions to be implemented. To contain costs in the meantime we included in last year's appropriation law a moratorium on the approval of any new WIC-only stores. We considered such a measure critical; in its absence, this committee would have faced even greater pressure on our limited resources. Can you please tell us whether this moratorium has helped contain WIC food costs and whether extending the moratorium will help to contain food costs next year? Why do you believe it is necessary to maintain the moratorium again this year, since the cost containment regulations have been in place for several months?

Answer. We proposed a moratorium to provide States with adequate time to implement the newly enacted cost containment provisions of the Child Nutrition Act. It is difficult to know for certain how the moratorium has affected food costs due to limitations on the data we have available and the multiple factors that influence State agency food expenditures in any given year. Although the reasons for changes in average food package costs are complex, it is likely that the moratorium contributed to holding food costs down in fiscal year 2005. We know that the 6 State agencies with the largest number of WIC-only stores experienced food package cost increases ranging from 3.5 percent to 14.2 percent between fiscal year 2003 and fiscal year 2004. Between fiscal year 2004 and fiscal year 2005, 3 of these State agencies experienced a decrease in the average food package cost, and three had a lower rate of increase than in the previous year.

At present we are optimistic that all State agencies that require certification will submit requests before September 30, 2006, and that all or most will receive certification by this date. Progress toward this goal was delayed for several months following the publication of the WIC Vendor Cost Containment Interim Rule on November 29, 2005. This rule implements the vendor cost containment certification requirement found in section 17(h)(11) of the Child Nutrition Act. From December 28, 2005 through February 23, 2006, FNS was under a temporary restraining order (TRO) due to a lawsuit filed by the National Women, Infants and Children Grocers' Association and other plaintiffs to prevent implementation of the Interim Rule. The TRO interrupted State agency submission of requests for certification and FNS decisions on certification. Since the dismissal of the lawsuit on February 23, 2006, FNS has moved expeditiously to certify the State agencies that meet the certification requirements, and to provide technical assistance to others that are still in the planning process. In addition to the requests for certification that are currently being reviewed, FNS expects to receive nearly a dozen more between mid-April and the end of September 2006 (including California's, the State with the largest number of WIC-only stores). We are making every effort to certify State agencies before the end of the fiscal year. Extension of the current moratorium prohibiting the approval

of new “WIC-only” stores until a State agency receives certification would ensure that the number of such vendors does not increase before State agencies implement improved cost containment methods.

WIC REAUTHORIZATION LEGISLATIVE PROPOSAL

Question. The 2004 reauthorization legislation added section 9(b)(8) to the Richard B. Russell National School Lunch Act, which specifies that all communications with households regarding certification or verification for free or reduced price meals must be in an understandable and uniform format and, to the maximum extent practicable, in a language that parents can understand. FNS has already provided model application and verification materials that reflect the changes to the certification and verification processes made by reauthorization in English and Spanish. In which additional languages will translations be provided and when will they be available?

Answer. The household application is already published in English and has been translated into Spanish. Both are available on our Web site found at <http://www.fns.usda.gov/cnd/FRP/frp.process.htm>. The next round of translations will include: Russian, Vietnamese, Chinese (Mandarin), Japanese, Serbo-Croatian, Arabic, Korean, Somali, Cambodian/Khmer, French, Hmong, Haitian Creole, Laotian, Polish, Portuguese, Sudanese, Thai, Urdu, Hindi, Kurdish, Farsi, Greek, Samoan, and Tagalog. All 25 translations of the English version of the application are expected to be finished in time for use in the 2006–2007 school year.

Question. We are aware that FNS has issued general guidance alerting States and school districts to this new provision. We are also aware that many households never respond to the request for eligibility verification and we want to be sure that families get the information they need to comply with the verification process. Please describe any manuals or other technical assistance materials that FNS has provided to local school districts clarifying the kinds of steps they are expected to take during the certification and verification processes to comply with section 9(b)(8). Has FNS reviewed materials in use by States and school districts to assess whether they comply with this provision and provide them with the assistance they need to come into compliance?

Answer. FNS has issued 14 guidance memos to the State agencies concerning the National School Lunch Program (NSLP) free and reduced price applications, certification and verification, eight of which specifically deal with verification. The goal of each of these memos is to ensure that school food authorities are fully aware of the new provision, understand completely the requirement to follow-up when a request for verification goes unanswered, and that schools and families have the necessary information in order to comply with verification requests.

FNS has updated its Guidance for Coordinated Management Evaluations of State Agency Operations to include the new provisions in the Reauthorization Act, including the new verification procedures as required by the Child Nutrition and WIC Reauthorization Act of 2004. As part of the management evaluation process, FNS reviews State agencies and the materials they use in their review of school food authorities to ensure that they comply with the new verification requirements.

FARMERS’ MARKET NUTRITION PROGRAM

Question. It is my understanding that States grants for the Farmers Market Nutrition Program have decreased this year. Is this accurate, and if so, why, considering the appropriated amount did not decrease? How much will the carryover be for the Farmer’s Market Nutrition Program this year? How does this compare to the past 3 years?

Answer. It is important to include the effect of prior year unspent funds when analyzing funding for the WIC FMNP. We anticipate approximately \$3–4 million in unspent fiscal year 2005 funds will become available after closeout is completed which can supplement the appropriated funds, thus bringing State agencies close to their actual expenditure levels in fiscal year 2005.

In fiscal year 2005, in addition to appropriated funds, we had available unspent prior year funds that were allocated to State agencies at the beginning of the fiscal year. Subsequently in fiscal year 2005, additional unspent prior year funds became available that were allocated to State agencies. For FMNP base grants for fiscal year 2006, only available appropriated funds have been made available. Additional funds recovered from 2005 should be made available by early summer, 2006.

In fiscal year 2005, \$8.4 million in unspent funds were available to supplement the appropriation of \$19.8 million. In fiscal year 2004, \$5 million in unspent funds were available to supplement the \$22.8 million appropriation.

FRUIT AND VEGETABLE PILOT PROGRAM

Question. As you know, last year we provided funding for an additional 6 States to join the Fruit and Vegetable Pilot Program. How much money would be required to extend the participation by these States through the next school year?

Answer. No funding will be needed to extend the program to these States through school year 2006–2007 because the extension will be covered by existing funds appropriated on November 10, 2005, for the period January 30, 2006 through June 30, 2007. After June 30, 2007, however, funds will be needed should Congress wish to continue the program in these 6 States.

WILDLIFE SERVICES

Question. What is APHIS Wildlife Services currently doing to reduce the effects the double-crested cormorant has on the Great Lakes fishery and how can we get them to expand their work to other highly impacted areas in the State?

Answer. APHIS is currently conducting double-crested cormorant damage management activities in the Great Lake States of Michigan, Minnesota, New York, and Ohio. We are also conducting an environmental analysis in Wisconsin to determine the potential impacts of expanding our activities to that State. In addition, we are cooperating with several State, Federal, tribal, and Canadian agencies to survey Great Lakes breeding populations. The breeding population of Double-crested Cormorants on the Great Lakes has increased dramatically—from 89 in 1970 to approximately 115,000 pairs in 2005. Also, APHIS continues to cooperate in satellite telemetry to monitor and assess regional movements in conjunction with diet and foraging studies.

Question. Would increasing control in the Great Lakes, a prime breeding ground for the double-crested cormorant, help reduce the number of cormorants currently decimating aquaculture facilities in the southern United States?

Answer. Yes, increasing control in the Great Lakes would help reduce the number of cormorants currently decimating aquaculture facilities in the southern United States. We have assessed the migratory path of double-crested cormorants. Using satellite telemetry and band recovery data, we observed the winter movement of these birds from the Great Lake Region to aquaculture facilities in Alabama, Arkansas, Louisiana, and Mississippi. We do expect that increased control activities in the Great Lakes would reduce the wintering population in the South and lessen the impact to the aquaculture industry and the environment.

Question. Does APHIS Wildlife Services have enough resources to successfully control the Great Lakes breeding population of double-crested cormorants?

Answer. Our current resources allow us to respond to the immediate short-term needs of States and industry—such as removing birds from a site.

STANDARDIZATION

Question. On January 26, I wrote to Secretary Johanns encouraging the USDA to act expeditiously to establish a grass-fed label standard for red meat. This proposal has been in the works for some time.

When can we expect the Department to act on this proposal?

What steps can the Department take to make sure that the program is affordable for producers?

Answer. Developing a label standard for the grass-fed marketing claim is a priority of the Agricultural Marketing Service (AMS) and we have been working closely with the industry to develop a workable and usable standard that would serve the grass-fed market. AMS has obtained input from a number of individual experts within government, industry, and academia while drafting the revised proposed standard and its corresponding threshold. We have finalized the development of the revised standard, and it is expected to be published in the Federal Register this spring.

Every effort will be made to administer this voluntary program cost-effectively. To validate the marketing claim associated with this production activity, AMS will conduct verification activities in accordance with procedures that are contained in Part 36 of Title 7 of the Code of Federal Regulations for Processed Verified Programs. This approach to verification of marketing claims makes for the best utilization of government resources on a cost recovery basis while providing for integrity of the program.

NATIONAL VETERINARY MEDICAL SERVICES ACT

Question. The National Veterinary Medical Services Act (Public Law 108–161) was funded in the fiscal year 2006 Agriculture Appropriations bill. What steps have

been taken to implement this program? When can we expect those steps to be completed?

Answer. USDA is exploring potential financial management strategies both within the Department and in collaboration with other Federal agencies in order to effectively run a loan repayment program. To evaluate these and other programmatic issues presented by the National Veterinary Medical Services Act—NVMSA, CSREES has constituted the NVMSA working group to develop potential program management strategies. The working group has met on four occasions and is exploring alternative strategies for managing the NVMSA. A draft program management proposal is presently being reviewed. We are working to ensure a well thought-out program plan which includes collaborations with veterinary schools and other stakeholders to develop research-based consensus regarding the candidate eligibility requirements, and metrics to support prioritized and weighted needs within the veterinary need areas identified within the Act.

AVIAN INFLUENZA

Question. Late last year, you were provided more than \$90 million in supplemental funds to prepare against avian flu, a small part of the total avian flu supplemental.

It is apparent this is both a public health and an agricultural issue. Do you think USDA should have more of a leading role in protecting against this disease?

Answer. USDA has taken an important role in preparing for and protecting against an incursion of high pathogenicity avian influenza (HPAI). We initiated the National Domestic H5/H7 Low Pathogenicity Avian Influenza (LPAI) Prevention and Control program in 2004 to conduct surveillance on the subtypes of LPAI that can mutate to dangerous forms. We have effective trade restrictions to prevent the introduction of HPAI through imported poultry and poultry products. Our preparation for a possible outbreak includes development of USDA responses as well as coordination with other Government agencies to protect both human and animal health. Internationally, we support capacity building, which allows APHIS to go into countries where the disease exists and assist in control efforts by providing technical training and advice.

Question. In what ways are you working with U.S. producers, large and small, to make sure they have all the tools possible to protect against this disease? What are producers asking you to do?

Answer. USDA has several cooperative programs to work with producers. The National Poultry Improvement Plan is a cooperative Industry-State-Federal program through which new technology can be effectively applied to the improvement of poultry and poultry products throughout the country. The program's provisions were developed jointly by industry members and State and Federal officials to establish standards for poultry breeding stock and hatchery products with respect to freedom from certain diseases and thereby provide certification of poultry and poultry products for interstate and international shipment.

As the avian influenza surveillance program widens, producers are often concerned about indemnification for flocks that test positive. Both the NPIP General Conference Committee, which represents poultry industry stakeholders, and the States have recommended 100 percent indemnity for participants of the NPIP H5/H7 avian influenza monitoring program.

In addition to publishing rules and uniform standards, USDA has focused on outreach and education through its Biosecurity for the Birds advertising campaign, professional development training, and other media. The advertising campaign, which provides basic information to promote avian health through biosecurity, began in July 2004 and has reached a circulation of over 125 million. Various training courses have been provided to State and Federal animal health technicians, veterinary medical officers, and other stakeholders working with the H5/H7 LPAI live bird marketing system program. These training sessions have included comprehensive information about poultry diseases, laboratory testing, biosecurity, personal protective equipment, State regulations, and risk assessments, among other things. USDA is also expanding outreach to the commercial poultry industry, especially those involved in the NPIP program, by updating an interactive CD to provide new information about poultry biosecurity for feed mills, hatcheries, slaughter plants, vaccine crews, live haulers, and service personnel.

Question. I understand that you plan to use \$3 million from last year's supplemental for avian flu vaccines and immunizations. However, there are some concerns that vaccinations will make it difficult to determine if flocks are actually infected with the virus after they are vaccinated. Do you favor a vaccination program for U.S. poultry?

Answer. Vaccination does have the potential to negatively impact our trade of poultry and poultry products, but the vaccination of domestic poultry for H5 Avian Influenza (AI) strains can be valuable as part of an official control and eradication program. If appropriate, USDA is prepared to vaccinate domestic poultry, and maintains a vaccine bank. Approximately 40 million doses of vaccine were manufactured in 2004 (H5N2, H5N9, H7N2, and H7N3) and are stored as frozen bulk viral fluid antigens. In 2005, the bank was expanded by approximately 30 million doses. The stockpiled H5 vaccines are effective against the current Asian strain of AI.

APHIS's Center for Veterinary Biologics (CVB) regulates the sale and distribution of veterinary vaccines. CVB controls the distribution of AI vaccines through a license restriction that places constraints on when, and under what conditions, manufacturers can sell AI vaccines domestically.

Question. Although the President's 2007 request includes a significant increase for avian flu, this bill won't be passed until October at the very earliest, and this disease is spreading more quickly than many have anticipated. Do you think the funding request in the 2007 budget is adequate to deal with avian flu or do you think you will need additional funds this year?

Answer. Currently, APHIS has sufficient funding to carry out its national domestic surveillance H5/H7 Low Pathogenicity Avian Influenza program and initiate additional surveillance and preparedness activities against an incursion of High Pathogenicity Avian Influenza. If we were to receive the entire amount requested in the fiscal year 2007 President's Budget and the disease situation did not change from its current status, we would not need additional funds to carry out our stated objectives. However, if there were a widespread outbreak or another domestic emergency related to avian influenza, we would need to reassess our available resources and consider adjustments to our spending plans at that time.

Question. While there has been much attention to transmission by migratory birds, there is also evidence that a bigger threat may be through the shipment of poultry-related products and that the disease might even be carried by containers in which infected birds had been kept.

Just how much do we really know about the transmission of this disease? For example, do we know that if all U.S. poultry flocks were kept inside buildings that they will be safe? Do you think we have enough information to control this threat?

Answer. Poultry scientists have studied how avian influenza (AI) and other virulent poultry diseases are transmitted. From this research, they have developed effective procedures to help prevent transmission from occurring. USDA has been publicizing these biosecurity measures, and we believe that by implementing them, producers themselves are helping us reduce the threat of widespread disease transmission.

AI is primarily spread by direct contact between healthy birds and infected birds, and through indirect contact with contaminated equipment and materials. The virus is excreted through the feces of infected birds and through secretions from the nose, mouth and eyes. Contact with infected fecal material is the most common method of bird-to-bird transmission.

Wild ducks often introduce low pathogenicity virus into domestic flocks raised on range or in open flight pens through fecal contamination. Because game birds and migratory waterfowl can introduce disease into domestic flocks, USDA and the poultry industries recommend preventing these avian populations from coming into contact with each other.

Within a poultry house, transfer of the highly pathogenic avian influenza (HPAI) virus between birds can occur via airborne secretions. The spread of avian influenza between poultry premises almost always follows the movement of contaminated people and equipment. AI also can be found on the outer surfaces of egg shells. Transfer of eggs, therefore, is a potential means of AI transmission. Airborne transmission of virus from farm to farm is highly unlikely under usual circumstances.

It is important to remember that a detection of H5N1 HPAI in wild birds would not mean that commercial poultry would be affected. The U.S. poultry industry is well equipped to prevent AI. First, chickens, turkeys, and eggs produced for human consumption are generally raised in very controlled environments. Secondly, biosecurity practices have been a part of the business of raising poultry in the United States for decades. The vast majority of our commercial poultry producers raise their chickens and turkeys in covered structures with controlled access.

In addition to carrying out surveillance and preparedness activities, USDA maintains trade restrictions on the importation of poultry and poultry products from countries currently affected by H5N1 HPAI. We would emphasize that there is no evidence that HPAI currently exists in the United States.

Question. If we ever have an outbreak of avian flu in this country, what kind of contingency plan do you have in place? Do you have cost estimates, including who will pay for it and where will the money come from?

Answer. If there were an outbreak of avian influenza (AI) in this country, our response would depend on the nature and extent of the outbreak and may require coordinated action with other Federal, State, and local agencies, as well as other segments of society. "The National Strategy for Pandemic Influenza" guides the national preparedness and response to an influenza pandemic, with the intent of (1) stopping, slowing or otherwise limiting the spread of a pandemic to the United States; (2) limiting the domestic spread of a pandemic, and mitigating disease, suffering and death; and (3) sustaining infrastructure and mitigating impact to the economy and the functioning of society. The Strategy provides a framework for future U.S. Government planning efforts that is consistent with the National Security Strategy and the National Strategy for Homeland Security. It recognizes that preparing for and responding to a pandemic cannot be viewed as a purely Federal responsibility, and that the Nation must have a system of plans at all levels of government and in all sectors outside of government that can be integrated to address the pandemic threat. APHIS has developed a response plan for AI. This plan provides greater detail on how APHIS will respond to an outbreak of AI and define activities that will be required to address the control, containment, and eradication of the disease. Additionally, APHIS has developed a playbook that acts as a direct link to the National Strategy for Pandemic Influenza, such that if the scope of an outbreak in animals surpasses APHIS and its partner's capacity, other resources can be activated in a standardized manner.

In the event of an HPAI outbreak that is within the scope of APHIS' response capabilities, APHIS has the Foreign Animal Disease management infrastructure to conduct an emergency response that would occur at the local level, in accordance with the National Animal Health Emergency Management System's guidelines for HPAI. Should the disease be detected in commercial flocks or in back yard flocks, affected flocks would be quickly quarantined to prevent spread. Sick and exposed birds would be euthanized and the premises cleaned and disinfected to stamp out the disease. USDA would conduct epidemiology investigations to determine the source of the virus, and to track the movement of birds to contain spread.

To ensure immediate deployment of supplies necessary to contain, control, and eradicate an HPAI outbreak, APHIS is building a stockpile of needed vaccines; diagnostic products including reagents; disinfectants; and equipment that would be required to support operations until normal supply lines can be established for protracted operations. APHIS is developing models of the potential impacts of AI outbreak in the United States and alternative control strategies. These models will enable APHIS to test preparedness and response capabilities through conducting simulated exercises specific to AI. The information gathered through the simulations and the exercises will enable APHIS to assess resource requirements in many different outbreak scenarios.

If the scope of the HPAI outbreak is beyond APHIS' and the affected State's immediate resource capabilities, additional resources can be obtained through the following mechanisms: the National Response Plan's Emergency Support Function #11 ensuring that animal-health emergencies are supported in coordination with the emergency support function that covers public health and medical services; and the National Animal Health Emergency Response Corps and various State response corps can be activated. These private veterinarians and animal health technicians are ready to assist on short notice.

Currently, APHIS has sufficient funding to carry out its national domestic surveillance H5/H7 LPAI program and initiate additional surveillance and preparedness activities against an incursion of HPAI. If we were to receive the entire amount requested in the fiscal year 2007 President's Budget and the disease situation did not change from its current status, we would not need additional funds to carry out our stated objectives. However, if there were a widespread outbreak or other emergency related to AI, we would need to reassess our available resources and consider adjustments to our spending plans based on the nature and extent of the outbreak.

USDA's current LPAI funding supports cooperative agreements with States; diagnostic work at the National Veterinary Services Laboratories; program personnel and their associated support costs; vaccine stockpiling; outreach and education; training; information technology/database architecture; and investigative and enforcement services efforts, among other things. A certain level of indemnity funding is available from fiscal year 2005 carry-over funding to allow rapid response to occasional LPAI introductions into domestic poultry flocks.

USDA's current HPAI funding supports the expansion of AI surveillance in the commercial industry and live bird market system to all appropriate States. In addi-

tion, the HPAI program will allow for surveillance in upland game premises, commercial/backyard flocks, and other high-risk populations that have not been covered under the national domestic program. The HPAI program will support preparedness activities such as data modeling, simulated exercises specific to AI, and planning for the immediate deployment of the supplies necessary to contain, control, and eradicate an AI outbreak. The program will also expand the "Biosecurity for the Birds" outreach campaign, as well as anti-smuggling and risk management activities. Internationally, the HPAI program will support capacity building, which allows APHIS to go into countries where the disease exists and assist in control efforts by providing technical training and advice. This will create a more comprehensive approach to AI by looking at it internationally, monitoring the multiple ways that AI might get into the country, and preparing for the possibility of a H5N1 outbreak.

FOOD SAFETY INSPECTORS

Question. Dr. Raymond, how many food safety inspectors will FSIS employ this year? Do you have a breakdown of "off-line" and "online" inspectors? How does this compare to last year? Are inspectors who quit or retire being replaced?

Answer. There are approximately 7,600 in-plant food safety inspection program personnel, including field import inspectors and compliance officers. The in-plant personnel includes 7,190 food safety inspectors. Of the total food safety inspectors 3,171 are "on-line" and 4,019 are "off-line." This represents a slight decline in the number of in-plant food safety inspection program personnel due to difficulty finding qualified personnel to fill the positions. In-plant employees make up the overwhelming majority of the field inspection force and are the only ones designated as "on-line" and "off-line." Other "front-line" inspection employees are not identified by these terms. Open positions are filled as quickly as possible with qualified people. Each year, FSIS hires on average approximately 300 entry-level Food Inspectors and approximately 75 Public Health Veterinarians.

Question. I understand that the number of plants has decreased, but what about the number of animals processed? How do you do a good job with fewer inspectors doing more work?

Answer. As required by the Poultry Products Inspection Act and the Federal Meat Inspection Act, respectively, each poultry carcass and 100 percent of livestock carcasses presented for slaughter are inspected by FSIS. Over the last decade, the number of poultry carcasses inspected per fiscal year has significantly decreased; however, the number of livestock inspected per fiscal year has increased.

The current number of FSIS inspection program personnel allows the agency to perform its public health functions. FSIS inspection program personnel provide inspection services for all establishments under its jurisdiction by employing alternative staffing strategies and fully utilizing available field inspection employees to address the demands of each particular area.

HUMANE ACTIVITIES TRACKING (HAT) SYSTEM

Question. How much funding will be required to complete connection of the HAT system to the FAIM architecture within FSIS? Please provide detailed information.

Answer. The total amount of \$7 million available from fiscal year 2005 and fiscal year 2006 will be sufficient to complete connection of the Humane Activities Tracking (HAT) system to the Field Automation and Information Management (FAIM) architecture within FSIS. In order to ensure that the field work force is able to instantly transmit public health and humane handling data to headquarters, \$5.5 million of the \$7 million is being used to install new high-speed connections in approximately 1,500 of 2,300 "base plants," which are establishments from which inspection program personnel, including patrol inspectors, operate on a daily basis. Reflected in these costs are equipment, initiating services, and monthly charges for 1 year after the service is initiated. The agency hopes to have high-speed connections completed on these 1,500 base plants by February 2007, and is evaluating alternatives for the remaining 800 sites for which DSL/Cable Broadband is currently unavailable or have other connectivity issues. By replacing dial-up connections with high-speed access at all base plants, FSIS will be equipped with a fully-integrated, real-time communications infrastructure that gives the agency the ability to instantly detect and respond to abnormalities or weaknesses in the system to best monitor humane handling and slaughter enforcement, safeguard public health, and ensure food safety and food defense.

The agency will also continue its development of a reporting tool which will link the HAT system to other agency databases through a web-based system, for which the remaining \$1.5 million is earmarked. As part of the agency's communications infrastructure, this reporting tool will allow inspection program personnel in the

District Offices and headquarters to access HAT data along with other food safety verification data, thereby providing the agency with a powerful management control tool for improved and consistent enforcement of the Humane Methods of Slaughter Act (HMSA).

Question. How much funding is required to maintain this technology?

Answer. Ongoing charges for the 1,500 broadband locations are expected to be \$3 million of base funding annually. USDA is currently evaluating connectivity alternatives for the remaining 800 base plant sites, so funding estimates are unavailable at this time.

COOPERATIVE SERVICES

Question. You commissioned an outside review of the programs and services provided by Cooperative Services at the Rural Business-Cooperative Services agency. Can you discuss the results of the review?

In addition, what steps will USDA take to ensure the unique structural and economic advantages of member-owned and controlled cooperatives will continue to be supported by USDA and its programs?

To support cooperatives, what steps have you taken to fill positions in the field at Co-op Services that are for cooperative development?

Answer. The Administration contracted for an outside program review of Cooperative Programs. The review was conducted by a committee comprised of industry leaders and members of academia and was charged with identifying improvements or changes that would assist today's rural cooperatives and promote opportunities for leveraging the current Cooperative Programs' programs and capacity to support a broader range of cooperative strategies and approaches to building economic vitality in rural areas.

The committee's recommendations focused on three primary areas—the expansion of the Cooperative Program's mission, the need for an infusion of new intellectual capital, and the adoption of a regional approach for providing cooperative services in rural communities. The committee recommended that Cooperative Program's mission be expanded to include alternative cooperative models and organizations, as well as non-agricultural cooperatives. The traditional cooperative model was seen as too restrictive, and the recommendation was made to include new generation cooperatives, LLCs, and other innovative "self-help" business models. The committee also found that cooperatives and other "self-help" organizations that focus on housing, consumer services, health care, consumer goods, employer-ownership, small business purchasing, and other areas could be useful and important tools for rural economic development and improving the quality of life in rural areas. Finally, the committee recommended a partnership between regional Rural Development offices and rural cooperative development centers to provide information, education, and legal and development assistance. Rural Development is taking these recommendations under review.

Rural Development's cooperative programs (CP) include the Value-Added Producer Grant (VAPG), the Rural Cooperative Development Grant (RCDG), and the Agricultural Marketing Resource Center (AgMRC) programs that devote major parts of their programs supporting and developing member-owned cooperatives. The RCDG program is budgeted at \$4.95 million for fiscal year 2007. Rural Cooperative Development Centers are awarded funds for the purpose of providing assistance to groups wishing to form cooperatives, as well as for providing assistance to existing cooperatives in rural areas. Member-owned cooperatives are encouraged and made specifically eligible for the VAPG program. However, the VAPG program is a competitive program that does not set aside specific support for cooperatives or any other type of applicant. In addition, CP provides support to member-owned and controlled cooperatives through the Rural Development Salaries and Expenses account by researching cooperative issues, by providing cooperative development technical assistance, by providing cooperative education and other technical advisory services, and by reporting on the financial health of the agricultural cooperative sector. Rural Development is taking these recommendations under review.

Question. Mr. Dorr, you have recently stated that Persian Gulf countries are showing an interest in investing in U.S. ethanol plants and you have said, "If you don't own [these plants] as agricultural producers, someone else will and you're going to be working for them".

Do you think that agricultural producers and rural cooperatives have a roll in producing renewable fuels or have they already lost out to the large corporate interests? Have your dire warnings come too late?

Answer. Renewable energy is, and will continue to be a big part of America's energy solution. From 2001 through 2005 ethanol production more than doubled from

under 2 billion gallons per year to about 4 billion gallons per year. Government investment, especially in recent years, has helped agricultural producers and rural cooperatives play a major roll in production of renewable fuels and will continue to assist in the growth of the renewable fuels sector. For example, from fiscal years 2001 through 2005, USDA Rural Development invested nearly \$84 million in 89 guaranteed loans and grants to assist with development of ethanol facilities throughout rural America. Many of these facilities are owned and operated by agricultural producers and by cooperatively organized entities.

We sincerely hope that agricultural producers, rural cooperatives, and rural residents will continue to be major sources of investment in renewable fuels. We want the people and businesses in rural communities to share in the returns to investment and the local development that is stimulated by local business ownership. As we look at the projects being started across the country we see that local money is still flowing in. What we are seeing as well, however, is that the big institutional investor, domestic and foreign, is seeing those high returns too. We would like to see that institutional interest in renewables serve as a tremendous way to leverage local investment.

Question. Mr. Dorr, your mission is to support Rural America and rural interests and, I think you agree, not large multi-national or foreign corporations.

Do you think that the budget proposal will provide adequate capital to small producers or cooperatives to move into the renewable fuels industry?

Answer. USDA Rural Development has several funding tools and opportunities, including direct and guaranteed loans and grants, to support investment by small agricultural producers and rural cooperatives and help move these entities into the renewable fuels industry. Most of these programs are relatively small in terms of budget authority. Collectively, however, they provide a highly flexible portfolio of management strategies and funding options with which to address the unique circumstances of agricultural producers and cooperatives we serve. The Renewable Energy/Energy Efficiency Loan and Grant Program (Section 9006) provides financial assistance specifically targeted to the industry. In order to ensure adequate capital for small producers under this program, the Section 9006 final rule, published in July of 2005, calls for the provision of priority selection points for small agricultural producers.

Question. Do you think the mix of grants-to-loans that you propose will be enough to make sure these groups can get a fair shake in this growing industry?

Answer. Rural Development will continue to extend support to agricultural producers and cooperatives for the development of renewable fuels from the full range of our business lending and investment programs. These funding programs, coupled with private sector leverage, will continue to assist rural small businesses and small agricultural producers in increasing their access to the growing renewable energy industry. In addition, continued simplification of application processes for small entities will encourage increased participation from that sector. Finally, as mentioned above, we have placed increased emphasis on supporting small agricultural producers through the priority selection process.

Question. How do you justify the reductions you propose when the opportunities, and the stakes, are so great?

Answer. One of USDA Rural Development's primary roles in nurturing the renewable fuels industry will be to encourage private sector investment to maximize the benefit of Federal funding. By leveraging Federal dollars with private investments, we can spread resources. By fostering partnerships with State, local, and tribal governments, community development organizations, and for-profit and not-for-profit companies, Rural Development can help to grow State and local renewable energy policies that will support further investment. To ensure that small projects are not overlooked, we will continue to emphasize the use of grants when they are needed and to increase utilization of loan guarantees when possible. This will continue to allow us to serve the neediest entities while increasing loan-based financial assistance to the target market. In fiscal year 2007, we will be looking for ways to better target all available program resources to meet the growing demand in the renewable fuels industry.

Question. Please provide us a breakdown, by program, for all the funds under your mission area for fiscal year 2007 that can be used to support renewable fuels development by farm organizations and rural cooperatives.

Answer.

[The information follows:]

FISCAL YEAR 2007 PROPOSED FUNDING TO SUPPORT RENEWABLE FUELS DEVELOPMENT

Loan/grant description	Fiscal year 2007 projected funding levels	Fiscal year 2007 Projected Fund- ing Activities for Renewable En- ergy
Business and Industry Guaranteed Loan (B&I)	\$990,000,000	\$16,000,000
Rural Economic Development Loan	34,600,000	400,000
Rural Economic Development Grant	10,000,000	400,000
Value Added Producer Grants	19,280,000	2,500,000
Section 9006 Renewable Energy Grants and Guaranteed Loans	7,920,000	7,920,000
Section 9006 Renewable Energy Guaranteed Loan	34,600,000	34,600,000
Section 9008 Biomass R&D Grants	12,000,000	12,000,000
Electric Program Loans	700,000,000	200,000,000
TOTAL	1,732,420,000	273,820,000

Question. Mr. Dorr, USDA has a long history of running a well-managed guaranteed rural homeownership program through a private-public partnership with over 2,000 lenders. In fact, in fiscal year 2005, over \$100 million in housing loans were provided in the rural areas of my home State. Of that amount, 32 percent benefited low and very-low income families.

I now see you are raising the origination fee for these loans from 2 percent to 3 percent, while interest rates are rising, and I must admit I am puzzled. An origination fee of 3 percent is extraordinarily high for this targeted market and almost unheard of in the housing industry. For fiscal year 2003, you stated you were lowering this fee from 2 percent to 1.5 percent to lower the so called “barriers” to achieve the President’s Initiative of increasing minority homeownership.

Why was it considered a “barrier” then and not now, and how do you justify increasing what you personally identified as a “barrier” to an unprecedented level?

How will your increased fee with rising interest rates help you meet or exceed the President’s goal of providing increased homeownership rates to low and very low-income families, especially minorities?

Answer. Homeownership, particularly minority homeownership, is still a key Administration objective. In fiscal year 2003, fees presented a barrier to homeownership for some prospective minority borrowers because they had to pay the fees at closing. We helped eliminate that barrier by allowing the entire fee to be financed into the loan by increasing the amount we can lend up to 103 percent of the appraised value of the home.

Additionally, we have no requirements for down payment or mortgage insurance, so even with the fees, monthly payments remain reasonable. The higher fee would only result in a \$6 increase in the average monthly payment for most customers. We closely monitor the other fees charged by participating lenders in our SFH guarantee program to ensure that fees charged are reasonable.

Raising the guarantee fee saves approximately \$35 million in Budget Authority for fiscal year 2007. This is a significant savings. Realizing savings like this while at the same time maintaining effective programs like 502 guaranteed loans is the balance USDA Rural Development is trying to achieve.

THE USDA LOAN PROGRAM

Question. Also as part of your request, you are asking lenders to certify they would not make a loan to a borrower using any other Federal housing program, including FHA, before making a USDA loan. The USDA program serves a rural based, lower-income population and is limited to a primary home, unlike FHA.

What data do you have that shows these programs overlap?

Wouldn’t this requirement add another layer or layers of bureaucracy and most likely confuse participating lenders and drive up the originator’s costs that will be passed on the borrower?

What have you heard from the lending community on both of these proposals, because, to be honest, we have heard a great deal from lenders, underwriters and national lending associations from around the country all of which were very critical of these efforts?

Answer. The Office of Management and Budget’s (OMB’s) Program Assessment Rating Tool (PART) indicates that the 502 guaranteed program may overlap other Federal housing programs, and may at times serve customers that could have received loans through the Federal Housing Authority or Veterans Administration.

This general provision has been proposed to preclude the potential overlap of Federal programs.

Currently, a lender must certify that they would not provide the proposed loan without a Rural Development guarantee. The proposed provision would require a lender certify that a borrower was not eligible for another Federal insured or guaranteed housing program. If the lending institution normally does not offer another Federal program, they would not be bound by this proposal.

The reaction from the lending community on the fee increase and the new certification proposal has not been positive. Higher fees and additional paperwork are not popular concepts. However, given the cost savings that would be realized from the fee increase and the elimination of potential Federal program overlaps, it is felt that benefits from these proposals are significant, can be successfully implemented, and make good program management sense.

STRENGTHENING AMERICA'S COMMUNITIES INITIATIVE

Question. In its fiscal year 2007 Budget, the Administration again proposes to eliminate four programs within the Department of Agriculture and consolidate those activities in the Department of Commerce with thirteen other programs from four other departments under the "Strengthening America's Communities Initiative." The four USDA programs are Rural Business Enterprise Grants, Rural Business Opportunity Grants, Economic Impact Grants, and Rural Empowerment Zones/Enterprise Communities, which annually have provided over \$72 million to Rural America's most underserved communities for several years.

What assurances can you provide that rural communities will continue to receive the same level of support for these specific programs under this consolidation?

Answer. The President's Strengthening America's Communities Initiative will include eligibility criteria that will ensure funds are directed to those communities most in need of development assistance. We feel confident that rural communities will fare well when these criteria are used. USDA Rural Development has offered our expertise, assistance, and experience in program delivery in rural areas through our 800 local offices and 6,800 employees. We will continue to work with the Department of Commerce and the Department of Housing and Urban Development on the technical details of program delivery, particularly as it affects rural areas.

Question. What studies indicate that this initiative will more effectively deliver these specific programs?

Answer. The initiative is designed to streamline a number of programs that provide regional economic assistance to communities, and will include eligibility criteria that will ensure funds are directed to those communities most in need of development assistance. While Rural Development has not conducted any studies of the initiative, we are confident that rural communities will fare well when these criteria are used. USDA Rural Development has offered our expertise, assistance, and experience in program delivery in rural areas.

Question. If any of these four programs will experience any funding reduction under this consolidation, please indicate the amount of the reduction and provide detailed justification for each reduction.

Answer. A total of \$327 million is proposed for the economic development component of the restructured Initiative. Further distributions of funding by program area have yet to be determined. Again, we believe rural America will be well served as the eligibility criteria will direct resources to those rural communities most in need of assistance, and USDA Rural Development expects to be heavily engaged in program development, implementation, and delivery.

SECTION 515

Question. The budget eliminates the section 515 rural rental housing program. Since 1963, the Agriculture Department has made loans for affordable rental housing in rural areas. The section 515 program is the only Federal program providing direct, subsidized loans (1 percent) to finance rural rental housing. According to a recent USDA report, there is a substantial need to repair and renovate section 515 housing. The portfolio contains 450,000 rented apartments in section 515 developments. The average 515 tenant income is little more than \$9,000, which is equal to only 30 percent of the Nation's rural median household income. Sixty percent of the tenants are elderly or disabled and one-quarter are minority. The existing Section 515 portfolio is aging. Of the 17,000 developments across the country, close to 10,000 are more than 20 years old. To maintain this stock, it will take a commitment of Federal funds for restoration. It's hard to argue that rural America does have a housing crisis. According to the 2000 Census, there are 106 million housing units in the United States. Of that, 23 million, or 23 percent, are located in non-

metro areas. Many non-metro households lack the income for affordable housing. The 2000 Census reveals that 7.8 million of the non-metro population is poor, 5.5 million, or one-quarter of the non-metro population, face cost overburden, and 1.6 million of non-metro housing units are either moderately or severely substandard.

Why has the Administration proposed to end a program that for over 40 years has financed over 500,000 units of affordable housing with very few delinquencies or defaults and why is RHS giving up on providing affordable rental housing for over seniors and families?

Answer. Rural Development has not given up on providing affordable rental housing. The President's fiscal year 2007 budget proposes \$74 million to continue the new vision for Multi-Family Housing programs.

The Administration proposes to create a new source of funding to rehabilitate 515 properties. The Comprehensive Property Assessment (CPA) found that 90 percent of the properties lacked sufficient cash and reserves to prevent economic obsolescence.

Already, over 100 properties are lost from the program each year. This number will rise quickly in coming years as deferred maintenance overtakes the 17,000 remaining properties in the portfolio. This is a much bigger threat to the portfolio than prepayment. Furthermore, in a few years loans will begin maturing; unless 515 property owners have equity in their property, many may be lost to the private market.

The Administration's multi-family housing proposal allows property owners to restructure their loans. With this restructuring USDA will exchange debt service payments on the loan to provide cash for rehabilitation, and the property owner will sign up for another 20 years providing affordable housing.

The new restructuring tools that are key components in our proposed revitalization legislation will allow us to assure that resources are available to revitalize the vast majority of properties in our portfolio where the owner elects to stay in the program. These restructuring tools, primarily the use of debt deferral, will create the opportunity to add additional debt to take care of immediate rehabilitation needs.

One way to look at this restructuring process is to view it as a "fix-up vs. build" decision: it costs \$85,000 on average to build a new affordable housing unit, but only \$20,000 per unit to rehabilitate what we currently have. The vision, then, is to secure the valuable national asset of a large affordable rural rental housing portfolio, for the longest period, at the lowest cost to the government, at the greatest benefit to tenants, owners, and communities.

The Administration's fiscal year 2007 Budget proposes more new construction for multi-family housing. It does this by doubling funds for Section 538 guaranteed loans, thereby increasing dramatically the loan amounts available. The section 538 program works in partnership with other financing entities to create affordable housing. More than 80 percent of the closed loans in the portfolio have 9 percent tax credit dollars. Many tenants in section 538 properties have section 8 vouchers which assist the tenants in keeping section 538 housing affordable. The program also offers interest credit subsidies that assist in lowering the interest rate throughout the term of the loan. The subsidized interest rate keeps rents low for tenants.

Question. According to the Department's Comprehensive Property Assessment, repair and renovation of the section 515 portfolio is a far greater problem—in terms of number of units—than prepayment. The Comprehensive Property Assessment indicated the need for some 50,000 vouchers for families unlikely to be displaced by sale of certain section 515 development and estimated over \$2 billion was needed to repair and restore the existing portfolio. Rural Housing Service (RHS) has used section 515 to finance this sort of repair and renovation activity. In fiscal year 2006, RHS will commit at least \$50 million to repair and restore the existing portfolio.

How many 515 projects have been repaired using the 538 program and how many projects would you predict would be rehabilitated with the 538 program at the President's budget request?

What statutory barriers exist for the 538 program to refinance and/or repair a 515 project with HUD or USDA rental assistance attached to it?

Answer. This is the first year of using 538 financing to renovate existing 515 properties. Currently, we estimate that in fiscal year 2006, 10 properties in the 515 portfolio will receive lender provided funds with a 538 guarantee. At the fiscal year 2007 President's budget request amount of \$198 million, we expect to finance approximately 20 to 30 existing 515 properties.

There are no statutory barriers which would preclude section 538 financing on an existing 515 project. However, section 515 owners do not have to refinance their loans in order to finance repairs or to restore their developments. If a section 515 owner wants to finance repairs with a 538 loan guarantee, the section 538 program provides an interest credit down to the applicable Federal rate at the time the loan

closes (currently approximately 4.6 percent). The interest rate difference is only part of the story. The cost of making section 538 funds available is significantly less to the Federal Government than through the Section 515 program. We would also consider the section 538 guaranteed funds to be only one of many sources of funding for rehabilitation purposes that can be made available to existing 515 projects.

VOUCHERS

Question. The fiscal year 2007 budget proposes \$74 million for vouchers and indicated that some of this money will be used for portfolio restructuring.

What is the planned breakout between expenditures for restructuring and vouchers—in both dollars and units?

Answer. The 2007 Budget addresses the displaced tenant issue with the funding of vouchers and hopes to be able to address the dilapidation issue if the restructuring authorization is passed. The 2007 Budget includes \$74 million to continue the multi-family housing revitalization proposal that was initially proposed in the 2006 Budget. This funding will be used primarily for housing vouchers, good for 12 months, for residents of projects whose sponsors prepay their outstanding indebtedness on USDA loans and leave the program. The specific dollar amount and number of tenants is dependent on the number of properties that pre-pay, their location, and the market conditions at the time. In addition, the Administration is proposing that 2007 appropriation language provide the flexibility to use the \$74 million for debt restructuring and other revitalization incentives that we expect to be authorized before or during 2007.

Question. The fiscal year 2006 budget requested \$214 billion for vouchers alone. The fiscal year 2007 budget requests much less for vouchers—\$74 million—and proposes to use some of that for restructuring.

What has changed in the last year so that the administration can request only about one-third of the fiscal year 2006 budget for vouchers?

Answer. The Comprehensive Property Assessment (CPA) found that 10 percent of the properties (approximately 1,700) could be economically viable to prepay if permitted. This is estimated to be about 46,000 units, with approximately one-third of the prepayments occurring in each of the first three years. The fiscal year 2006 budget reflected vouchers needed in the first year funded under the assumption they would last 3 to 4 years and provided administrative funds to establish the Office of Portfolio Revitalization. The fiscal year 2007 budget reflects vouchers needed in the first year funded at a 1-year level.

RENTAL ASSISTANCE

Question. The budget proposes to reduce the term on rural rental assistance contracts from 4 years to 2 years.

If this is not approved, what is the total needed to continue all expiring contracts? If this is approved, what is the projected total needed for contract renewals for fiscal year 2008?

Answer.

[The information follows:]

RENTAL ASSISTANCE PROJECTIONS

YEAR	4 YR RENEWALS	
	Number	Dollars in Thousands
2006	66,799	\$639,126
2007	85,756	987,000
2008	78,567	1,284,564
2009	60,524	1,204,900
2010	73,531	950,000

RENTAL ASSISTANCE PROJECTIONS

YEAR	2 YR RENEWALS	
	Number	Dollars in Thousands
2007	66,799	\$477,000
2008	85,756	628,000

RENTAL ASSISTANCE PROJECTIONS—Continued

YEAR	2 YR RENEWALS	
	Number	Dollars in Thousands
2009	145,366	1,089,000
2010	146,280	1,121,000
2011	152,098	1,194,000

Question. The Administration proposes to continue new construction for farm labor housing. These units need rental assistance in order to be affordable to eligible farmworkers housing households.

Is there rental assistance for farmworker housing included in the budget request?

Answer. Yes, Rural Development's rental assistance request includes units for farm labor housing.

WATER AND SEWER GRANTS

Question. The budget includes a reduction in the interest rate charged to poverty level communities, which is offset by a reduction in water/sewer grants. For most rural communities, grant funds are the key to financing new systems and system improvements. These communities have the most significant problems with their water-sewer systems and lack the capacity in terms of income and population to spread the costs for improvements. It is likely that a reduction in the amount of available grant assistance will limit the ability of the communities with the greatest need to afford RUS assistance. The RUS system allows for up to 75 percent grant financing for water or sewer systems, yet typically communities only get 35–40 percent grant.

What assurance can you give the Committee that this proposal will not result in small poor communities being left out of the program or increasing the debt servicing that will have a negative impact on increased average user water and sewer bills?

Did you conduct analysis on small low-income rural communities and can you share this information with the Committee?

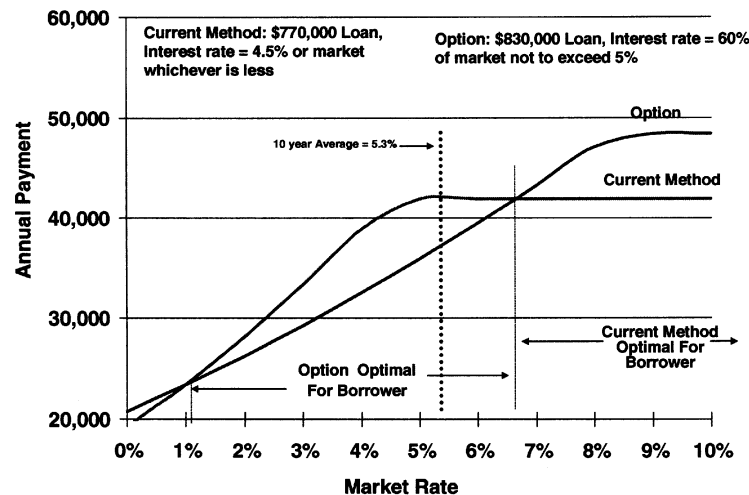
Answer. An applicant's debt repayment capacity is evaluated independently of the loan interest rate and based on maintaining reasonable user fees. The applicant's loan capacity is then determined based on its repayment capacity and the interest rates and terms available at the time the project is approved. With the proposed reduction in interest rates, it expects to increase most applicants' loan capacity. Grant funds will continue to be used to assist borrowers in maintaining reasonable user rates where their borrowing capacity is less than the project cost. Priority for funding will continue to be based on small communities with low income levels that must make system improvement to meet health standards.

The chart below describes our analysis of the revised interest rate structure in funding a loan and grant project with the same level of budget authority. Using data available at the time the President's budget was being developed, the chart shows the market rate range where the revised interest rate structure will result in lower annual loan payments. Since the historic market rate falls within that range, we concluded our revised interest rate structure would better serve our borrowers in maintaining reasonable user fees. Rural Development has determined that because this assists all communities, it will help the small low-income rural communities as much or more than those between 5,000 to 10,000 populations.

[The information follows:]



Interest Rate Options at Same Program Level
Annual Payment on a \$1,000,000 Project at Poverty Rate



ORGANIC RESEARCH

Question. The 2002 Farm Bill established the Organic Research and Extension Initiative to fund organic agricultural research at the level of \$3 million for each of the subsequent 5 years. When combined with the Organic Transitions Program, this joint Integrated Organic Program has been disbursing about \$4.5 million to fund organic research annually.

How does the competitiveness of this program compare to other of the integrated grant programs (e.g. section 406 grants)?

Answer. In 2005, the Integrated Organic Program received 82 proposals requesting \$39 million and the competitive review panel deemed 42 of the proposals requesting \$23 million as high quality and fundable. To stay within the approximately \$4.7 million available to the program, 8 proposals were recommended for funding, which represents 10 percent of all submitted and 19 percent of those that were determined to be fundable.

In 2005, the Crops at Risk Program received 22 proposals requesting \$7.4 million and the competitive review panel deemed 9 of the proposals requesting \$3.4 million as high quality and fundable. To stay within the \$1.3 million available to the program, 5 proposals were recommended for funding, which represents 23 percent of those that were determined to be fundable.

In 2005, the FQPA Risk Avoidance & Mitigation Program received 18 proposals requesting \$25.6 million and the competitive review panel deemed 12 of the proposals requesting \$17.6 million as high quality and fundable. To stay within the \$4.2 million available to the program, 4 proposals were recommended for funding, which represents 22 percent of those that were determined to be fundable.

In 2005, the Methyl Bromide Transitions Program received 19 proposals requesting \$6 million and the competitive review panel deemed 11 of the proposals requesting \$3.9 million as high quality and fundable. To stay within the \$2.9 million available to the program, 9 proposals were recommended for funding, which represents 47 percent of those that were determined to be fundable.

Question. Please describe any plans CSREES has to increase its level of support for organic agricultural research.

Answer. The quality of proposals being funded through the Integrated Organic Program and low percentage of high quality proposals funded suggest that increased funding for the Integrated Organic Program would be effectively used. In the 2007 President's budget, the program is funded under the NRI. The agency is assessing

how organic research is currently supported through allied programs and how this support could be increased, if appropriate. For example, a number of National Research Initiative programs support basic and applied research directly and indirectly related to organic production, marketing and environmental interdependencies. It may be possible to increase support for organic agricultural research by increasing staff awareness of organic research needs and by adapting Requests for Applications to reflect the increasing interest of the USDA in organic production and marketing systems, as well as potential implications to the environment, rural communities and long term competitiveness in the United States products.

ORGANIC AGRICULTURE

Question. The 2002 agricultural census contained only 2 questions on organic operations, providing little information about the scope of the industry. What is NASS's plan to gather more information to document demographic and economic trends in the organic sector?

Answer. NASS has expanded the Organic Section for the 2007 Census of Agriculture. NASS staff consulted with other USDA agencies and organic grower organizations to develop a more comprehensive Organic Section that will better address the needs of the data user community. This data will allow NASS to publish the organic data in conjunction with the economic and demographic data already collected on the census. The result will be a more complete picture of the organic sector of American agriculture.

Question. We understand that NASS has suggested they could better address data on the organic industry by doing a follow up survey to the 2007 census sent only to certified organic operations. Is it possible to include this organic survey as an addendum (included with) the main agricultural census?

Answer. The 2007 Census of Agriculture will collect information on certified, transitional, and non-certified organic agriculture. In combination with other data collected in the census of agriculture, NASS will be able to produce cross tabulations providing the most comprehensive data set available on the organic sector.

The main barrier to inserting an addendum into the 2007 Census of Agriculture is the inability to easily pre-identify the producers in all sectors of organic agriculture. Industry experts have indicated information is needed on certified, transitional, and non-certified organic producers. While it may be possible to pre-identify certified producers, it would be virtually impossible to pre-identify the others.

Question. Of 15 project areas in the NRI competitive grants program, I have been informed that only 2 of them have funded projects that contain an organic agriculture element within them. These are Managed Ecosystems and Agricultural Prosperity for Small and Medium-Sized Farms. However, I have also been informed that since 2003, there have been no grants made that specifically fund organic production research, though five projects that had some aspect pertaining to organic marketing were funded through the Agricultural Prosperity program in 2005. How could organic be better represented through more program areas of the NRI?

Answer. Organic research, extension, and educational issues are applicable to the majority of the NRI competitive grants programs. In the past, the majority of projects funded have been through the Managed Ecosystem program and its predecessor, the Agricultural Systems program. Between the fiscal years 2003 and 2006, six projects have been funded through the Managed Ecosystem program for an award amount of \$1,976,127. Three of these projects are related to increasing production in cropping systems through more efficient cycling of nutrients and better understanding of soil biological processes. Two projects compared apple production systems between organic, conventional, and integrated systems. Results from the apple projects were published in an article in Science.

As you mentioned, the new Agricultural Prosperity for Small & Medium-Sized Farms program funded two projects on organic agriculture during its first year. One project was from a social perspective looking at the role of women farmers in sustaining small farms and rural communities. The second project was on production systems transitioning to conservation tillage practices. The 2006 fiscal year projects have not been announced, but we anticipate additional projects related to organic agriculture will be funded.

In addition to the Managed Ecosystem and the Small Farms program, six other programs have been involved in funding organic agriculture projects between fiscal years 2001 and 2006. These programs illustrate the diversity of topics that can support organic research interests through NRI programs. Programs that have funded projects directly related to organic agriculture are the Biology of Plant-Microbe Associations, Soil Processes, Biologically Based Pest Management, Biology of Plant-Microbe Associations, Agricultural Markets and Trade, and Rural Development. Re-

search questions being addressed under these programs range from "Population Migrations of Phytophthora Infestans in Organic and Conventional Agricultural Production Systems" related to potato blight in the Biology of Plant-Microbe Associations program, "Microbial Community Structure in Relation to Organic and Conventionally Farmed Desert Soils" related to soil health in the Soil Processes program, "Dispersal of Phytophthora capsici in Soils from Conventional and Organic Agroecosystems" looking at how organic practices can control disease in the Biologically Based Pest Management program, "Population Migrations of Phytophthora Infestans in Organic and Conventional Agricultural Production Systems" in the Biology of Plant-Microbe Associations program. Social and economic issues can be addressed through the Agricultural Markets and Trade and Rural Development programs. Examples of funded topic are "Experimental Investigation of Interactions in Willingness to Pay for Certified Organic and Non-Genetically Modified Foods", "The Demand for Alternative Foods: Perceptions and Characteristics of U.S. Shoppers", and "Generational Transfer of Alternative Farms as Rural Development in the Northern Great Plains Region".

Projects can impact or inform organic producers, but may not be directly identified as an organic research project. These projects provide examples of the breath of issues that are facing the organic producer, which can be addressed through NRI programs. There were 16 NRI programs that funded projects that are potentially relevant to organic research in fiscal years 2004 and 2005. The areas of research vary from use and management of manures, growth and health of animals, weed dynamics, soil biological processes and nutrient cycles, air quality from animal systems, bio-control of insects, biodiversity of systems, to health aspects encouraging vegetable consumption. NRI funding for these projects was at a level of \$16,691,097.

An emerging area of interest for the organic producer is in being able to use generally accepted practices of conservation, enhancing biodiversity, soil enrichment, and recycling on inputs to increase the economic value of organic production practices. Several programs in the NRI are expanding our focus on ecosystem services and market valuation of these practices. For example the Markets and Trade and Managed Ecosystem programs have funded 10 projects that will lead to adoptions of conservation practices or evaluate market potentials for ecosystem services. This is a new opportunity for research, extension, and educational activities in support of organic agriculture.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

RISK MANAGEMENT AGENCY

Question. In your written testimony, you referred to the President's request to fund 15 additional staff years for the Risk Management Agency to provide better oversight of the crop insurance program so as to avoid problems such as those that resulted in the failure of the American-Agrisurance insurance company in 2002. Please describe in greater detail what functions those additional staff would perform that would have such an impact?

Answer. RMA has requested the additional staff for the Compliance offices to provide more effective program oversight, strengthen the front-end reviews of approved insurance providers, and to address outstanding OIG recommendations to improve company oversight and internal controls.

Increased staffing will assist Compliance with ongoing efforts pertaining to quality control and assurance requirements and the increased workload associated with increases in program size and complexity. These efforts will clearly improve RMA's ability to deter waste, fraud, and abuse through better internal controls and monitoring. The ability of the Compliance staff to maximize automation and other efficiencies to offset limited personnel resources has reached a peak, and it is necessary to increase actual numbers of people at this time or alternately reduce some activities. Reducing any of our ongoing activity would be a hard choice since every activity Compliance engages in is based on statutory or approved program requirements. Compliance uses various methodologies to limit the number of policies selected for review (dollar thresholds, etc.) and refers complaints and other related issues back to the Approved Insurance Providers for their review and response. However, accomplishing more of this work with RMA Compliance staff would provide greater assurance and control over the results.

The addition of two staff to each of the six Regional Compliance Offices is intended to assist with the additional workloads associated with performing random policy reviews associated with determining a program error rate under the Improper Payments and Information Act of 2002 (IPIA). During the last decade, Compliance

greatly reduced the numbers of random policy reviews it performed. Requirements in the previous Standard Reinsurance Agreement for the companies to randomly review policies annually, provided mixed and/or wholly unusable results that RMA deemed unsatisfactory, especially for establishing the required Program Error Rate. Presently, Compliance has taken resources away from other review activities to supplement the required IPIA random reviews. The additional staff will permit each office to recover some of the effort in these other areas.

Question. For fiscal 2007, the President is seeking \$109 million to fund computer upgrades at various agencies in the Department of Agriculture, a recurring request for the last several years. Why is Risk Management Agency the only entity within USDA for which the President is proposing to assess private sector partners the cost of upgrading the Agency's computers, by imposing a half cent fee on every policy sold by crop insurance companies?

Answer. The Federal-Private sector partnership that makes up the Federal crop insurance program is unique among USDA programs. The delivery of the Federal crop insurance program is provided through a network of private sector insurance companies who are reimbursed by the Federal Government for their delivery costs. The companies are also able to earn underwriting gains in years of favorable loss experience. For the 2005 crop year, the total compensation paid to participating insurance companies is expected to approach \$1.8 billion and more than \$10 billion over the last decade.

While private sector companies deliver the crop insurance program, the USDA Risk Management Agency (RMA) information technology (IT) system is critical to its ongoing operation. The RMA IT system is used to maintain a wide array of vital program information including acreage and production information on about 1.2 million policies, and provides critical internal controls for mitigating program vulnerabilities. The RMA IT system also maintains actuarial data for over 368 crops in over 3,000 counties Nation-wide. The private sector insurance companies need to access the RMA IT system and data on a daily basis in order to conduct business. The existing RMA IT system has been in place for over a decade and is reaching the end of its life expectancy. The system is becoming increasingly difficult and expensive to maintain and recent years have seen increases in computer downtime which threaten the operation and security of the Federal crop insurance program.

The Administration's proposal recognizes the urgency of RMA IT funding needs in light of previous budget requests that have gone unfunded. The Administration believes the private insurance companies are a primary beneficiary of efficient, effective and more advanced computer systems, and thus it is not unreasonable to have the companies contribute to the modernization and maintenance of the IT systems which they rely upon to accrue considerable financial benefits. In addition, the new IT systems will likely contribute to improved and more efficient compliance with Congressional mandates pertaining to data mining and data reconciliation/data sharing, which has a direct impact and associated cost to the insurance companies.

MARKET ACCESS PROGRAM

Question. Why does the President's budget propose to reduce funding for the Market Access Program (MAP) by 50 percent?

Answer. The proposal to limit funding for MAP in 2007 reflects the Administration's efforts to reduce the Federal deficit. It should be noted that even if the program is limited to \$100 million in 2007, that level is still higher than the \$90 million program level that was authorized for MAP prior to the 2002 Farm Bill. Reducing the deficit is a key component of the President's economic plan and will help to strengthen the economy and create more jobs. Farmers, ranchers, and other residents of rural America understand the importance of a healthy economy, which raises incomes and increases demand for their products. This and other deficit reduction measures will contribute to a more prosperous future for our citizens.

Question. Has some problem been detected with the program, or has it been determined that it is no longer necessary to assist U.S. agricultural exporters?

Answer. Expanding overseas markets for agricultural products is critical to the long-term health and prosperity of the U.S. farm community. This Administration is convinced that, given our advantages in agricultural productivity and low cost of production vis-a-vis the rest of the world, the future of our farmers and ranchers lies in the export market. FAS' international activities, including MAP, play a critical role in helping open new markets, pursuing the emerging growth markets of tomorrow, and maximizing the opportunities offered by trade liberalization and growth in global food demand. FAS' market development programs were reviewed in accordance with the Office of Management and Budget's Program Assessment Rating Tool in 2005 and received a score of 75 with a "Moderately Effective" rating.

The current budget situation requires hard choices and the setting of priorities. We believe that \$100 million is an appropriate level for the program in light of the fiscal discipline that is absolutely necessary in times of deficit spending. It is also important to understand that, while funding for MAP is reduced, funding for all other USDA market development activities, including the Foreign Market Development Program, remains unchanged from this year's level.

WORLD TRADE ORGANIZATION

Question. In the Doha Round negotiations, the European Union has pushed hard to require that all international food aid be provided only on a cash basis, rather than through commodity donations as is done in U.S. programs. I find the EU proposal on food aid to be unacceptable, as do most other members of the Senate. Where do the negotiations stand on this issue?

Answer. Recently, the Agriculture Negotiations Chair, Crawford Falconer, issued a Food Aid Reference Paper, which essentially summarized the state of play on various food aid issues. The purpose of the paper is to help focus discussions on key issues in upcoming meetings. We are encouraged by the Chair's paper as it allows for in-kind, or commodity, food aid. Earlier this year, the African and Least Developed Countries (LDC) groups, which are the recipients of food aid, issued a joint submission on food aid. This paper, too, suggested that food aid disciplines should leave the door open for in-kind donations. These are encouraging developments in the food aid negotiations.

AGRICULTURAL TRADE

Question. Many of the bilateral disputes that have emerged in recent years in agricultural trade are highly technical in nature, typically having to do with unscientific sanitary or phytosanitary (SPS) rules or cumbersome customs or distribution requirements. What steps is USDA taking to make sure that potentially problematic rules of this kind are identified early and addressed before they hinder access for U.S. agricultural exports?

Answer. On a weekly basis FAS and U.S. food safety agencies meet to review new or revised foreign SPS regulations and assess their potential impact on U.S. exports. In 2005, USDA's World Trade Organization (WTO) Enquiry Point led a U.S. inter-agency process that reviewed over 600 foreign SPS regulations notified to the WTO. Based on an interagency analysis, the Enquiry Point drafted and submitted official comments on 62 foreign measures to reduce their impact on U.S. exports. In addition to the numbers above, FAS and U.S. food safety agencies also collaborated to prepare an additional dozen formal comments addressing barriers to market access for measures that were not notified to the WTO, including a number of measures implemented by China and India. FAS' overseas staff also actively monitor local government's SPS-related regulations and notify the U.S. industry and the Enquiry Point of potentially problematic regulations for further action.

FAS uses the rules of the WTO SPS Agreement to exert pressure on countries such as India and China to increase the transparency of their import regulations, thereby, allowing the United States and other countries to expose and then resolve unfair SPS import barriers. In 2005, these actions caused China to change import regulations on meat, wines, spirits, and fresh fruits. U.S. exports to China of these products grew from \$142 million in fiscal year 2004 to \$252 million in fiscal year 2005. Similarly, India relaxed import requirements that could have blocked U.S. exports of almonds, pulses (chick peas, lentils, and peas), and other horticultural exports. Almond shipments, the top U.S. agricultural export to India, increased from \$95 million in fiscal year 2004 to \$118 million in fiscal year 2005. U.S. exports of pulses to India increased from \$500,000 in fiscal year 2004 to over \$3 million in fiscal year 2005.

FARM LOAN PROGRAMS

Question. I have heard from constituents that the emergency loan program is unnecessarily complex and, for many farmers, too restrictive to meet their legitimate needs. I note that FSA is continuing its project to streamline all farm loan program regulations, handbooks, and information collections. I believe that it is essential to complete this project and reduce the paperwork burden for all loan applicants and FSA employees as quickly as possible. How soon can borrowers expect improved loan processing procedures?

Answer. FSA has re-engineered and streamlined the guaranteed and emergency (EM) loan processes, and is in the process of streamlining the remaining direct loan making regulations and processes. These streamlined regulations will reduce the paperwork required for a loan and shorten the time it takes to process a loan. The

final rule implementing these regulations is currently in the clearance process, and we expect the regulations to be implemented in the field in early 2007. In the case of EM loans, the submission requirements have been reduced and flexibility added to the process. However, the Agency still must determine an applicant's eligibility for an EM loan, make decisions regarding loan feasibility and adequacy of collateral for the proposed loan, and comply with Federal environmental and credit policy requirements. We have endeavored to make this as easy as possible for the applicant, but these determinations require information that some applicants may find burdensome to provide.

FSA also utilizes technology to ease the application process. Applicants can access all forms necessary to apply for a loan via the internet. They may also complete and submit loan applications on-line. The Agency recently implemented a state-of-the-art business planning system that has improved loan processing response times.

Question. What more can FSA do to make emergency loans available to those who have suffered crop, livestock or property damage as a result of natural disasters?

Answer. FSA re-engineered the EM loan regulations and procedures in 2002. The changes made it easier for producers, particularly livestock producers, to apply for and receive EM loans. Any livestock loss, whether it is reduced production or loss of animals, is now considered a qualifying loss for EM loans. If a producer meets the statutory eligibility requirements and has suffered any property damage, they now may qualify. Additional changes were made to the method used for calculating a qualifying loss for crop producers. These changes have streamlined the application process and made EM loans more accessible to crop producers. FSA also uses available crop insurance data to expedite and reduce the burden on applicants. The new regulations allow FSA to provide EM assistance to more producers in an efficient and expeditious manner and comply with statutory requirements.

Question. I am going to read from the USDA Budget Summary: "The farm credit programs provide an important safety net for America's farmers by providing a source of credit when they are temporarily unable to obtain credit from commercial sources."

I fully agree with this statement, but would expand it to include the guaranteed loan programs which facilitate loans from private lenders, so I am particularly concerned that the Administration intends to shift \$30 million of the cost of the guaranteed credit to the very farmers who are least able to afford the additional cost.

The Administration proposal refers to a modest increase in the fee required to obtain guaranteed loans. In fact, upfront fees for all guaranteed loans will be increased 50 percent. In addition, a proposed annual fee for multi-year farm operating loans will significantly increase the cost of credit for those farmers who obtain guaranteed unsubsidized credit lines. For some farmers the annual fee may make the difference between the ability to cash flow and the decision to quit farming. What makes this proposal even more distressing is that interest rates are rising, so farmers will face higher credit costs even before the fees are imposed.

What legal authority are you relying on to impose these fees?

Answer. The Consolidated Farm and Rural Development Act, § 307(b) [7 U.S.C. 1927], authorizes fees on farm ownership loans. The fees are not statutorily limited but are "as the Secretary may require." In the case of operating loans, Title V of the Independent Offices Appropriations Act of 1952 [31 U.S.C. 9701] authorizes fees for services or things of value provided by the Government. The statute requires that the fees or charges be based upon what is fair and on the costs to the Government.

Question. The budget assumes a decrease of \$186,000,000 for guaranteed farm ownership loans and a decrease of \$112,890,000 for guaranteed farm operating unsubsidized loans. The justification for these significant decreases is a decline in demand for the program.

To what extent do the proposed user fees contribute to the decline in program demand?

Answer. We do not anticipate that imposition of fees will have a material impact on the program demand. Historically, program demand has reacted to trends in the agricultural and general economies. Guaranteed operating loan demand has actually increased to date in fiscal year 2006 as higher energy prices, which were unforeseen during the development of the budget, have increased production costs. The demand for guaranteed farm ownership loans has declined slightly, as refinancing activity has slowed with rising interest rates.

Question. How many borrowers are expected to forgo guaranteed loans because of the additional and new fees?

Answer. We anticipate that very few borrowers will be forced to forgo guaranteed loans because of the additional and new fees. The amount of the fees is relatively minor as compared to the total expenses and overall borrowing of a typical bor-

rower; therefore, very few borrowers are likely to be unable to cash flow because of the increased fees.

Question. Has FSA conducted an economic assessment of the proposed fees on borrowers and rural lenders? If so, what are the key findings of the assessment?

Answer. FSA did not conduct a formal economic assessment of the proposed fees. However, FSA reviewed the impacts of fee increases in the Small Business Administration and USDA Rural Development programs. Fee increases on guaranteed loans from those agencies have not materially impacted the use of the programs.

Question. Are there adequate funds available to offer subsidized guaranteed loans or direct loans to borrowers who will be unable to cash flow guaranteed loans because of the additional fees?

Answer. We anticipate that there will be adequate funds to meet the needs of the few borrowers likely to be in that situation. Because the amount of the fees is small compared to the total expenses and overall borrowing of most guaranteed loan applicants, we anticipate that few will need to move to subsidized or direct loans as a result of the fees.

SECTION 9006 OF THE 2002 FARM BILL

Question. As you know, section 9006 of the farm bill's energy title, which I authored, provides grants and loans to farmers and rural small businesses for renewable energy projects and to make energy efficiency improvements. The program is very popular, and already well oversubscribed. Of course, I strongly disagree with the Administration's budget proposal to cut this program's funding by more than half. In 2004 less than 3 percent of applications for small wind and solar projects were approved and funded. What I have heard is that the scoring system USDA and DOE have established puts smaller scale distributed generation projected at a significant disadvantage to larger projects.

Why are so few small-scale renewable energy projects and such a negligible percentage of such applications for grants receiving funds?

Are you looking into ways to alter the program to give small-scale renewable energy projects a greater opportunity to participate?

Would you supply data as to how much projects have been funded the past several years, by energy category, and by the size or scale of those projects?

Answer. The Section 9006 regulation published on July 18, 2006, included a simplified and streamlined application process for small projects of \$200,000 or less. To increase accessibility for smaller projects and applicants, we expanded priority points for small agricultural producers and small rural businesses. We are in the process of developing application worksheets to help guide smaller applicants through the process and provide them with tools to help improve the quality of applications. In fiscal year 2007, we are looking for ways to better target the resources to give small scale projects a greater opportunity to participate.

SECTION 9006 AWARDS, FISCAL YEAR 2003–2005

	Small Projects ¹		Large Projects ²	
	Award (\$)	Number	Award (\$)	Number
Grants:				
Anaerobic Digester			21,973,493	82
Bioenergy	233,521	10	7,547,719	27
Energy Efficiency	2,068,455	132	2,861,488	33
Geothermal	130,848	3	249,435	1
Hybrid	26,457	2	2,413,375	7
Hydrogen				
Solar	229,883	12	1,212,360	5
Wind	434,712	24	27,374,804	97
Grant Totals	3,123,876	183	63,632,674	252
Guaranteed Loans:				
Bioenergy	100,000	1	10,000,000	1
Loan Totals	100,000	1	10,000,000	1
Total Number	437			

SECTION 9006 AWARDS, FISCAL YEAR 2003–2005—Continued

	Small Projects ¹		Large Projects ²	
	Award (\$)	Number	Award (\$)	Number
Total Awards (\$)	76,856,550			

¹ Small Projects=projects with total eligible project cost of \$200K or less.

² Large Projects=projects with total eligible project cost greater than \$200K.

Value-added Producer Grant (VAPG) applications, especially those seeking funds for planning purposes, do not necessarily indicate size or scale of the proposed project. Therefore, an accurate measure of the number applicants proposing small-scale energy projects is not available.

Beginning in 2006, VAPG evaluation criteria provide for priority points to be awarded to farm-based renewable energy project applications.

Following is a breakdown of VAPG-funded energy projects by number of projects, amount funded, and category for 2001–2005.

VAPG-FUNDED ENERGY PROJECTS

Project	Fiscal year 2001		Fiscal year 2002		Fiscal year 2003		Fiscal year 2004		Fiscal year 2005	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Ethanol	9	\$3,461,704	22	\$4,824,323	11	\$1,849,620	6	\$988,986	14	\$1,519,500
Biodiesel	2	1,000,000	4	1,246,000	9	1,783,225	4	621,099	9	789,377
Solid fuel	1	470,000	4	272,567	1	50,000	.....	.....	1	110,000
Anaerobic .....	.....	.....	1	65,429	.....	.....	2	135,000	3	188,975
Wind .....	.....	.....	2	298,000	2	14,812	1	128,000	.....	.....
Solar .....	.....	.....	.....	.....	.....	.....	1	73,332	.....	.....
Other .....	.....	.....	1	250,000	1	101,920	.....	3	358,435	.....
Total	12	4,931,704	34	6,956,319	24	3,799,577	14	1,946,417	30	2,966,287

SECTION 9002 BIOBASED PRODUCTS

Question. As you know I talked with the Secretary about the biobased products rule coming out a few weeks ago. We had a good conversation. I want to thank you as I did the Secretary for getting to this point. Specifically how many items do you expect to designate for preferred procurement by the end of this calendar year?

Answer. We currently have six items designated by final rule for preferred procurement. These six items account for at least 120 specific products from 58 different manufacturers. We expect to have four additional proposed rules, with ten items each, in the clearance process or published in the Federal Register by the end of calendar 2006. When finalized, the first five rules will account for over 1,000 specific products from more than 300 manufacturers within the 46 items. USDA will continue to designate additional items as further market research and test data is obtained.

RURAL DEVELOPMENT GRANTS

Question. Please provide a list of Rural Development grants (including the amount granted) made in fiscal year 2004 and fiscal year 2005 to communities on the list published in the Federal Register on January 4, 2001 (66 Fed. Reg. 751) for the purpose of building rural businesses infrastructures to utilize and market products from forest hazardous fuel reduction projects.

Answer. Our research indicates that no Rural Development grants were made to organizations in the communities listed for the purpose of building rural business infrastructure to utilize and market products from forest hazardous fuel reduction projects.

IMPLEMENTATION OF TEXAS INTEGRATED ELIGIBILITY CONTRACT

Question. Under Secretary Bost, as you know, I have had some concerns about turning over core Food Stamp Program functions to private contractors, specifically the recent decision by the State of Texas to turn over large areas of program administration to private entities.

As you know, at the end of January, Texas began to roll out the first stage of its integrated eligibility contract in two counties surrounding the Austin area on a pilot basis. I have had a chance to review several of the site and implementation reports from this contract phase and based upon my review, I have several reasons for considerable concern.

The Weekly Post transition Status Report from the Texas Access alliance for the reporting period of 3/6/06 through 3/12/06 shows that individuals seeking assistance over the telephone are encountering major problems. This report indicates call abandonment rates of almost 55 percent and average waiting time of over 21 minutes. Given that these are average waiting times, it is obvious that many individuals are waiting longer to speak with customer service representatives.

Under Secretary Bost, what is being done to ameliorate these problems and, more importantly, please indicate what levels of telephone service you believe are acceptable. You have assured me several times, and I take you at your word, that FNS will not approve the rollout of additional project phases unless you are satisfied with the contractor performance in the previous contract phase. Under what conditions would you not approve the next contract phase? Is a 20 minute waiting time with more than half of callers giving up acceptable? What are the criteria and standards that you will use to make a decision regarding approval of the next phase of the contract?

Answer. Implementation of Texas' new system is intended to allow the State to realize the customer service improvements and potential savings that its new business model offers. USDA/FNS stewardship responsibilities require assurance that basic program standards are maintained. Our overriding issues for continuing project expansion are sustaining program access and integrity to ensure that applicants and recipients get fair, timely, and accurate service.

We recognize that any new system is likely to encounter problems during implementation, many of which can be addressed as rollout continues. Our concern is that the project not expand in the face of major problems which jeopardize access or integrity, or which warrant immediate correction. We intend to continue funding and working with the State to resolve problems and will only halt funding in the face of serious deficiencies.

Texas' recent call center performance has not been acceptable, but it has been improving. The data from the weekly status report for the week ending April 9, 2006, indicates that the call abandonment rate is 3.86 percent and the call wait time is 66 seconds. The data from the week ending March 12, 2006—approximately 1

month earlier—had a call abandonment rate of 54.5 percent and the call wait time was 1,276 seconds. Therefore, based on our monitoring of this project, we know that steps are being taken which have already resulted in improved call center operations.

USDA/FNS has developed a list of performance elements which we consider critical and appropriate for use in considering the success of initial rollouts of the Texas project. While we will be monitoring many aspects of project implementation, we will focus on these components which include: System Functionality, Customer Service, and Application Timeliness. Findings from our recent reviews found: long call wait times, high call abandonment rates, and call operators providing misinformation; as well as backlogs in data entry, and a high percentage of cases returned to the vendor due to missing or inaccurate information. We also learned that there is insufficient system testing and risk assessment. While these items may not in and of themselves be critical, taken together their cumulative effect caused us to question the readiness of the system to expand.

The decisions on the pace of rollout are complex and dynamic and must include assessment of the risks of identified problems and the availability of remedies to these problems. These must be weighed against the cost and risks of delayed implementation. Accordingly, we are not setting specific numerical standards but are reviewing and monitoring the overall functionality and capacity of the system. Based on its own assessment of readiness, the State announced a delay in its rollout to resolve fundamental operating concerns. We agree with the State's decision and continue to work closely with the State to monitor project implementation.

Note: Under Secretary Bost and Deputy Under Secretary Kate Coler traveled to Texas on May 16, 2006 to state clearly the FNS expectation that further rollout should be delayed until identified issues have been addressed. Texas stated they will not rollout the system to additional areas in the State until issues of access and integrity have been resolved. No date for future rollout has been established at this time.

IMPACT OF TEXAS ELIGIBILITY SYSTEM ON VULNERABLE GROUPS

Question. As you know from our prior correspondence on this matter, I have been particularly concerned about the disparate impact of the new eligibility systems for persons with low levels of literacy, persons with limited English proficiency, the elderly, and persons with disabilities.

In my previous correspondence with you, I have raised these issues several times. In a recent letter to me you responded that, "we are working to monitor the project's impact on such persons and ensure the State's continued compliance with applicable civil rights laws." Are you tracking the extent to which the new eligibility process and systems impact these vulnerable groups compared to other individuals? Please tell me specifically how you are monitoring these things. Can you provide me with any data about differential impacts of the new system on these vulnerable groups? Are you collecting any data on this at all?

Answer. Access to program benefits for all eligible persons is a priority of USDA/FNS, however vulnerable populations such as the elderly, disabled, and others with barriers to participation are of specific concern. For this reason, USDA/FNS is carefully watching for negative impacts on especially vulnerable populations. In addition, the USDA/FNS Program Access Review process includes contacting advocacy organizations, which represent the interests of a variety of vulnerable populations, to obtain their feedback on the service they have received during the food stamp application process.

USDA/FNS is conducting on-site monitoring of local offices and call centers, participating in project meetings and conference calls, and performing an ongoing review of performance reports and contractor deliverables.

USDA/FNS is monitoring Texas' project implementation in affected counties on a monthly basis. However, given the normal State reporting mechanisms, which include time needed for review of the data, the number of cases processed at the State level during the first month of project implementation in January 2006 will not be available until June 2006. County level data is normally reported only for the months of January and July; thus county data for January will be available in June/July.

FNS does not impose higher standards on Texas than exist for other States administering the Food Stamp Program, such as reporting or collecting data not normally collected as a part of routine program operations. However, we are monitoring these issues closely, in lieu of actual additional data collection. Thus far, it could be concluded that Texas' new business model actually has the potential to improve

access for special populations. We will continue to watch this aspect carefully, as Texas proceeds with its project.

NATIONAL ANIMAL IDENTIFICATION SYSTEM

Question. USDA expedited its plans to implement a national animal identification system after BSE was discovered in a cow in Washington State. A system such as this is extremely important to trace back the origin of animals in the event of a disease outbreak, but also to determine its exact age. In a recent BSE case in Alabama, the age of the cow has been a key issue in order to determine the effectiveness of FDA's ruminant-to-ruminant feed ban and for restoring beef trade. South Korea made it clear that it wanted certainty that the cow that tested positive for BSE in Alabama was in fact born before FDA's ruminant-to-ruminant feed ban.

Recent press accounts indicate that the national animal identification system will only track animal movements and not the age of animals. Is this correct?

Answer. Implementation of NAIS will support State and Federal animal disease monitoring and surveillance through the rapid tracing of infected and exposed animals during animal disease outbreaks. The ultimate long-term goal of NAIS is to provide animal health officials with the capability to identify all animals and premises that have had direct contact with a disease of concern within 48 hours after discovery. While age is not required to track an animal to its origin, its value in an epidemiologic investigation can be significant and producers are encouraged to report such information to the private and State databases. However, it is important that the "required" data elements be restricted to the most basic information needed to trace an animal back to its premises of origin.

What is USDA's justification for only tracking animal movements and not incorporating animal age into the system?

Answer. Producers are very much aware of the value of having records to document the age of their animals and may elect to input such data in private tracking data systems. While age is not required to track an animal to its origin, its value in an epidemiologic investigation can be significant and producers are encouraged to report such information to the private and State databases. However, it is important that the "required" data elements be restricted to the most basic information needed to trace an animal back to its premises of origin. USDA wants this system to be as easy as possible to allow for producer participation. Increasing the amount of information producers must submit could discourage the number of participants.

Why does USDA not want to know the age of animals for tracking purposes when it would provide critical information for restoring or maintaining beef trade?

Answer. The ultimate long-term goal of NAIS is to provide animal health officials with the capability to identify all animals and premises that have had direct contact with a disease of concern within 48 hours after discovery. While age is not required to track an animal to its origin, its value in an epidemiologic investigation can be significant and producers are encouraged to report such information to the private and State databases. However, it is important that the "required" data elements be restricted to the most basic information needed to trace an animal back to its premises of origin. USDA wants this system to be as easy as possible to allow for producer participation. Increasing the amount of information producers must submit could discourage the number of participants. Again, market demands will drive the reporting of additional information and will be better accepted by the affected producers.

Question. On January 10, of this year, a non-profit U.S. Animal Identification Organization (USAIO) was formed, at the behest of USDA, to implement and operate the animal movement database. USAIO submitted a Memorandum of Understanding (MOU) to USDA to develop a strategic partnership.

Has USDA approved the MOU?

Answer. USDA has received a proposed memorandum of understanding from USAIO. USDA since published the document detailing our plan for the integration of private animal tracking databases with the National Animal Identification System (NAIS). This plan includes a draft cooperative agreement that, when finalized, will be used to establish the arrangement of all participating organizations. USDA plans to have all agreements signed in June 2006.

Will USDA exercise authority to approve or disapprove decisions made by the USAIO regarding the management and operation of the national animal tracking database.

Answer. Animal tracking databases will be managed and owned by the industry and States. As envisioned and outlined in our strategic documents, the NAIS will integrate with more than one of these private animal tracking databases. On April 6, 2006, USDA released the general technical standards that animal tracking data-

bases will need to comply with to enable their integration with the NAIS. Private database owners or those involved with the development of private databases, such as USAIO, have been invited to submit applications for system evaluation to USDA and offer feedback as the final technical requirements are established.

Should USDA find that the defined data elements are compliant with the NAIS standards, the technology architecture meets the technical requirements, and the proposed databases submitted for review meet all the other criteria, we would initiate a formal agreement with each entity responsible for compliant databases. The agreement would also detail access rights, as well as safeguards for preserving historic data if the organization discontinues operation of the database or ceases business. If and when the agreement is finalized, those databases would be noted as an authorized or compliant animal tracking system in the NAIS. The application for system evaluation and a draft cooperative agreement are available on the NAIS Web site at www.usda.gov/nais.

By early 2007, USDA expects to have the technology in place, called the "Animal Trace Processing System" or commonly known as the "metadata system," that will allow State and Federal animal health officials to query the NAIS and private databases during a disease investigation. The animal tracking databases will record and store animal movement tracking information for livestock that State and Federal animal health officials will query for animals of interest in a disease investigation.

If there is a disease outbreak, and there is an inability of USAIO to provide the necessary tracking information to USDA due to poor management decisions or technology flaws, who will be held accountable?

Answer. USDA has released the general technical standards that animal tracking databases will need to comply with to enable their integration with the NAIS. Private database owners or those involved with the development of private databases, such as USAIO, have been invited to submit applications for system evaluation to USDA and offer feedback as the final technical requirements are established.

Should USDA find that the defined data elements are compliant with the NAIS standards, the technology architecture meets the technical requirements, and the proposed databases submitted for review meet all the other criteria, we would initiate a formal agreement with each entity responsible for compliant databases. The agreement would also detail access rights, performance measures such as availability of the system, and requirements for redundancy and back-ups to ensure data is available on an as-needed basis. Also, safeguards for preserving historic data if the organization discontinues operation of the database or ceases business will be part of the agreement. If and when the agreement is finalized, those databases would be noted as an authorized or compliant animal tracking system in the NAIS. If USDA is unable to access necessary data from a compliant entity during a disease investigation, USDA may either revoke their status as a compliant entity (therefore affecting the system's marketability to producers) or take some other corrective action.

Question. In June 2004, I wrote Secretary Veneman expressing concern that the implementation and infrastructure of the planned national animal identification system appeared to be geared towards cattle to the exclusion of other animal species. Currently, the USDAIO is made up of only cattle or bison representatives and the database appears to not be suited for poultry or hogs.

What is USDA doing to remedy this problem to ensure that the database is least burdensome to producers and tailored to the daily functioning for operations of all animal species?

Answer. Throughout the establishment and implementation of the NAIS, USDA has engaged in extensive dialogue with producers and industry organizations across the country to gauge their views on animal identification. In April 2005, USDA published a draft strategic plan and draft program standards for the NAIS and invited public comments on those documents. Industry-specific working groups have also been studying the issue of animal identification and will be making recommendations to USDA through an established advisory committee on how best to tailor the program to meet their industry-specific needs. NAIS working groups have been established for both the poultry and swine industries, and they have been providing input throughout the developmental process.

On April 6, 2006, USDA released the general technical standards for animal tracking databases that will enable integration of private systems with the NAIS. Those involved in the development of private databases, such as the U.S. Animal Identification Organization (USAIO), were invited to submit applications for system evaluation to USDA and offer feedback as the final technical requirements are established. USDA plans to enter into cooperative agreements with organizations responsible for the databases that meet the standards. The application for system evaluation and a draft cooperative agreement are available on the NAIS website.

More than one private animal tracking database can be integrated into the overall NAIS, including those that might be species-specific.

By early 2007, USDA expects to have the technology in place, called the "Animal Trace Processing System" or commonly known as the "metadata system," that will allow State and Federal animal health officials to query the NAIS and private databases during a disease investigation. The animal tracking databases will record and store animal movement tracking information for livestock that State and Federal animal health officials will query for animals of interest in a disease investigation.

Once the entire system is designed and implemented, the market will determine which technologies are the most appropriate to meet the needs of the system. Sale barns, feedlots, and others will help determine which methods are most cost-efficient and effective. In developing the system, USDA has been accepting input from both species-specific working groups and a markets and processors working group.

Will USDA, in partnership with USAIO, be incorporating the principles and practices of existing USDA disease eradication programs into the structure and operation of the national animal identification system?

Answer. The primary objective of the NAIS is to develop and implement a comprehensive information system that will support ongoing animal disease programs and enable State and Federal animal health officials to respond rapidly and effectively to animal health emergencies such as foreign animal disease outbreaks or emerging domestic diseases. The faster animal health officials can respond to, contain, and eradicate disease concerns, the sooner affected producers can resume business as usual. USDA has been developing data standards to align with this overall concept.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION (GIPSA)

Question. On March 9, during a hearing of the Committee on Agriculture, Nutrition, and Forestry to review GIPSA's enforcement of the Packers and Stockyards Act, I asked GIPSA Administrator James Link why there had been no governmental oversight or corrective action given the high rate of staff turnover, management preventing employees from doing their jobs and management demanding that staff inflate the number of investigations listed in annual reports at GIPSA. These problems continued over the course of 5 years. James Link stated he did not know why USDA failed to take corrective action because he was not employed by USDA during that time. You have served as USDA's Deputy Under Secretary for Marketing and Regulatory programs since December 2002. You have also served as acting Under Secretary since last year. How is it possible that GIPSA was in complete disarray for so many years, yet you did not take corrective action?

Answer. Prior to my appointment with USDA, I served as the Chief Economist for the National Cattlemen's Beef Association. Due to my past connection with the cattle industry, I was recused from issues that had a direct connection to my previous employer for a period of 1 year. After this recusal period ended, I continued to distance myself from Packers and Stockyard Program issues due to a perceived conflict of interest. However, upon Under Secretary Hawks retirement and assuming the role of Acting Under Secretary, followed shortly by Jim Link's appointment as GIPSA Administrator, I worked with USDA ethics experts to assure that by inserting myself into GIPSA management that I was not crossing ethical boundaries. At such time corrective actions were taken to begin addressing the matters that have been outlined in the OIG's report.

Question. During your time as Deputy Under Secretary, what was your role in and responsibility for communicating with the Under Secretary and Secretary concerning GIPSA's mission and daily operations relating to enforcement of the PSA against anti-competition practices?

Answer. Prior to my appointment with USDA, I served as the Chief Economist for the National Cattlemen's Beef Association. Due to my past connection with the cattle industry, I was recused from issues that had a direct connection to my previous employer for a period of 1 year. After this recusal period ended, I continued to distance myself from Packers and Stockyard Program issues due to a perceived conflict of interest. However, upon Under Secretary Hawks retirement and assuming the role of Acting Under Secretary, followed shortly by Jim Link's appointment as GIPSA Administrator, I

worked with USDA ethics experts to assure that by inserting myself into GIPSA management that I was not crossing ethical boundaries. At such time corrective actions were taken to begin addressing the matters that have been outlined in the OIG's report.

Question. What will you do to make sure that the Secretary or the new Under Secretary knows what GIPSA is doing in regard to anti-competitive practices?

Answer. Both the Secretary and I have an open door policy with GIPSA. I meet weekly with the Administrator to discuss issues ongoing within the agency. These discussions involve all types of Packer and Stockyards cases, including financial, trade practice, and competition issues. Also, weekly activity reports are submitted by GIPSA and reviewed by the Secretary's and Under Secretary's office. This report includes all important issues ongoing within GIPSA. As needed, GIPSA's Administrator briefs my office, as well as the Secretary on investigations that may have a large economic impact. I am committed to maintaining open lines of communications between GIPSA and the Under Secretary's office for Marketing and Regulatory Programs.

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

SIMPLIFIED SUMMER FOOD PROGRAM

Question. The Simplified Summer Food Program, started as the Lugar pilot program, was expanded to now include 25 states. In Illinois, we know there are many children who are eligible for free or reduced price lunch during the school year who are not participating in a summer food program. I'm told sponsors are hard to come by because the paperwork and accounting requirements are onerous. The nutrition and anti-hunger community in Illinois expects to see a dramatic increase in summer food programs when Illinois is able to participate in the Simplified Summer Food Program. Have States participating in the Simplified Summer Food Program seen increases of this type? Have States that participated in this program attracted more program sponsors, operated more program sites and served more low-income children than those States not participating in the program?

Answer. States participating in the Simplified Summer Food Program have shown an increase in participation as measured by sponsors, sites, and meals served to eligible children during the summer months. During the same time, those States not participating in the program have experienced a decrease in each of the corresponding categories. However, since the inception of the Simplified Summer Food Program, many States have also had the opportunity to operate a seamless summer feeding program through the National School Lunch Program (NSLP). Because these two initiatives have operated concurrently in these States, we are not able to identify the extent to which changes in sponsors, sites, and children result from the Simplified Summer Food Program, from the NSLP seamless summer feeding program, or from a combination of both.

WIC FOOD PACKAGE

Question. Last year, the Institutes of Medicine released recommendations for improving the nutritional profile of the WIC food package, including adding whole grain foods, fresh produce and incentives for breast feeding. Given the growing rates of overweight and obese children, these recommendations for an updated food package also could help start children on the right path to nutritious and lower fat dietary habits makes. What are the USDA's plans for incorporating IOM recommended changes to the WIC food package?

Answer. USDA is proceeding with a rule making process that will afford opportunity for public comment on all of the proposed changes to the WIC food packages before the rule is finalized. The proposed revisions to the WIC food packages largely reflect the recommendations of the Institute of Medicine (IOM) in its 2005 Report WIC Food Packages: Time for a Change. The proposed rule was sent to the Office of Management and Budget this spring. We are hopeful that a proposed rule can be published by summer 2006. However, affording opportunity for a full 90-day public comment period for this important rule may preclude issuing an interim final rule within the 18-month statutory deadline.

CSFP CASELOAD

Question. Low-income Illinois seniors rely heavily on the Commodity Supplemental Food Program to supplement what they are able to purchase at the grocery store or obtain through a food bank. I recognize the program is under stress as commodity prices have grown faster than program funding. What plans does the agency have to ensure that current caseload demand can be met?

Answer. All available resources are being utilized to support the program, but total estimated resources are insufficient to support 2006 nationwide caseload at the 2005 level.

In addition to cash resources, CSFP commodity inventory maintained at Federal, State, and local levels and those commodities obtained under agriculture support

programs (surplus commodities) that are appropriate for inclusion in the CSFP food package are being used to support the program. The types and amounts of surplus commodities depend on agricultural market conditions.

On December 29, 2005, we assigned tentative caseload and administrative grants for 2006 based on the level of resources expected to be available to support the program. While all available resources were included in our calculations, total estimated resources available were sufficient to support about 477,000 tentative caseload slots, representing a reduction of approximately 11 percent from the 2005 caseload level. Final caseload and administrative grants were allocated on March 27, 2006. The final caseload level increased to over 492,000 slots due to an expected increase in the level of surplus commodities available for use in the CSFP food package and lower caseload use by Louisiana early in the year due to the disruption caused by the recent hurricanes. Both of these factors served to free available cash resources to support more caseload slots nationwide without negatively impacting Louisiana. However, CSFP States were subject to at least a 6 percent reduction in final caseload from 2005 levels, and consistent with the regulations, States that did not fully utilize caseload in the previous year were subject to further reductions.

FINANCIAL ASSISTANCE PROGRAMS ALLOCATION FORMULAS

Question. NRCS administers a host of conservation programs—the Environmental Quality Incentives Program (EQIP), Conservation Security Program (CSP), and others. In my view, the State of Illinois is well-equipped to take advantage of these environmental programs—producers in the State have a long-standing tradition of being at the forefront of conservation, the State is one of the leading producers of agricultural products, and there is a lot of land used for farming—28 million acres or 80 percent of the State's total land. Unfortunately, when compared to States with similar populations or farm sectors or agricultural production statistics, Illinois receives lower conservation technical assistance allotments. These are the multiplier funds that help farmers build expertise and leverage other funding sources. One of my concerns is that there are more than two dozen measures that can be weighted differently to determine State technical assistance allocations. My other concern is that the formulae and criteria that are used to make State allocations are not available on the NRCS website. I would like to know why the State of Illinois received this allocation and I would like to know what NRCS is doing to make these allocation decisions more transparent. Will NRCS publish these criteria on its website?

Answer. EQIP allocations to States include financial assistance (FA) and technical assistance (TA) dollars. FA is allocated to the States and territories based on 31 base and natural resource factors which are relevant to addressing the EQIP national priorities. The source of the data is generally the Natural Resources Inventory (NRI) data, although some data is based on Environmental Protection Agency (EPA), Ag Census, Bureau of Indian Affairs (BIA), National Oceanographic and Atmospheric Agency (NOAA) and the American Plant Food Control Officials reports. Program Management Performance Incentives, initiated in EQIP in fiscal year 2003, include FA and TA and are part of a State's allocation only if a high level of performance was achieved in administering the prior years funding.

TA funding is used to deliver program-specific services. Technical assistance allocations are based on the NRCS cost-of-programs data and linked directly to a State's FA allocation. There are no weights in TA allocations. For fiscal year 2006, NRCS took into consideration the amount of TA that would be required to service EQIP contracts written in prior years. Nationally, with the prior year workload pulled into the equation, the total workload—represented by FA dollars equaled \$1,947,931,838 (prior year \$1,094,395,709 plus fiscal year 2006 \$662,601,964). EQIP TA was set at \$190,934,165 and equals about 9.8 percent of the FA workload. Therefore, each State, including Illinois, received a TA allocation equal to 9.8 percent of the total FA workload—as represented by the prior year and current year FA dollars.

In fiscal year 2005, Illinois received an additional \$313,958 EQIP TA allocation to accelerate the writing of Comprehensive Nutrient Management Plans through the use of Technical Service Providers. That same year, the State returned \$1.4 million in EQIP FA without the commensurate amount of TA. Fortunately, other States were able to use the FA.

The FA and Performance Incentive formulas are as follows:

FA FORMULA

	Weight (percent)
The base factors (49.3 percent):	
Acres of non-irrigated cropland (1997 NRI)	3.2
Acres of irrigated cropland (1997 NRI)	4.3
Acres of Federal grazing lands (1992 NRI)	0.5
Acres of non-Federal grazing lands (1997 NRI)	4.2
Acres of forestlands (1997 NRI)	1.1
Acres of specialty crops (1997 NRI)	3.2
Acres of wetlands and at-risk species habitat (1997 NRI)	4.5
Acres of water bodies (1997 NRI)	3.2
Livestock animal units (1992 NRI)	5.7
Animal waste generation (1992 NRI)	5.7
Waste management capital cost (1992 NRI)	3.4
Acres American Indian Tribal Lands (most current BIA acres)	3.3
Number of Limited Resource Producers (1997 Ag Census)	4.9
Grazing land lost to conversion (1997 NRI)	0.8
Revised Air Quality non-attainment areas (EPA)	1.3
The resource factors (49.3 percent):	
Acres of pastureland needing treatment (1992 NRI)	5.4
Acres of cropland eroding above T (1992 NRI)	6.1
Acres of Fair and Poor Rangeland (1992 NRI)	6.1
Acres of Forestlands, eroding above T (1992 NRI)	1.4
Acres of cropland and pastureland soils affected by saline and/or sodic conditions (1997 NRI)	2.6
Miles of impaired rivers and streams (EPA)	3.5
Potential for pesticide and nitrogen leaching (1997 NRCS Report)	1.3
Potential for pesticide and nitrogen runoff (1997 NRCS Report)	1.7
Ratio of livestock animal units to cropland (1997 NRCS Report & NRI)	1.7
Number of CAFO/AFO (1997 Ag Census)	2.7
Ratio of commercial fertilizers to cropland (1995 American Plant Food Control Officials Report)	0.8
Wind erosion above T (1997 NRI)	4.2
Phosphorous runoff potential (1997 NRCS Report)	3.9
Riparian areas (1997 NRCS Report)	0.8
Carbon sequestration (1992 & 1997 NRCS Reports)	3.5
Coastal zone (1992 NOAA Report)	3.6

Note: Financial Assistance allocations to entities (Alaska, Hawaii, Pacific Basin, and Puerto Rico) without reliable base and resource factors account for 1.4 percent of total FA.
Total of FA factors (100 percent).

Program Management Performance Incentives:

For fiscal year 2006, \$38.4 million Program Management Performance Incentives are part of the allocation if a State performed above the cut-off. The following factors were used to compare State performance:

Performance Factors	Weight (percent)
Cost share obligations versus payments for fiscal year 2004 and fiscal year 2005	15
FA to TA ratio	25
TSP obligations and disbursements	15
Weighted cost-share percentage	10
Limited Resource Farmers	10
Livestock-related contracts (CNMP)	15
Program National Priorities	10
Total of Performance factors	100

In fiscal year 2006, NRCS will release a request for proposals to evaluate all of the allocation formulas in their entirety. This project will be a comprehensive evaluation of each program allocation formula, to include analysis and findings on each formula's consistency with the new NRCS Strategic Plan; consistency with program statutory authorities and regulatory requirements, and program goals and objectives; technical and analytical defensibility of the formula (parameter and variable selection, formula functional form) and data sources; the efficiency and effectiveness of allocation outcomes as a result of formula. The deliverable will be used to provide guidance for improvement in allocation formulas, as evidence to support NRCS's allocation formulas to interested external parties, to provide a template for which to evaluate future allocation formulas, and finally as a means to assess how allocation

formulas relate to programmatic efficiency and annual/long-term performance measures.

When the evaluation is complete, NRCS will post this information on the website. NRCS is committed to making our processes transparent through our public website.

MARKET ACCESS PROGRAM

Question. The Administration's fiscal year 2007 budget cuts the Market Access Program (MAP) program in half from \$200 million to \$100 million. Overseas markets are critical for our agricultural producers, and this program was an important part of making our products competitive overseas. The State of Illinois alone exports \$4 billion annually in agricultural products.

I would like a report on the markets that MAP has helped open up, the commodities the program has assisted since the MAP received funding, and the rate of return on the Map's activities. I would also like to know what alternative programs the Administration hopes will fill the place of MAP as our producers compete against foreign producers supported by export subsidies.

Answer. We are providing a table which identifies more than 40 markets where MAP funds were used to help open the market for some 35 U.S. agricultural, fish, and forestry products. We are also providing a listing of all the current participants in the MAP.

With regard to the rate of return on MAP activities, the Foreign Agricultural Service (FAS) has hired an independent evaluator to assess the effectiveness of two primary market development programs administered by FAS—the MAP and the Foreign Market Development (Cooperator) Program. This work is ongoing, and FAS hopes to receive the results in late summer of 2006. This evaluation will also be used to satisfy the Office of Management and Budget's requirement outlined in the Program Assessment Rating Tool to conduct independent evaluations of government programs.

As for supporting U.S. producers in the export market, the U.S. Government is actively pursuing reform of international trade rules in the World Trade Organization (WTO) so that U.S. exporters will not have to compete with foreign producers who receive export subsidies. In fact, agreement was reached at the Hong Kong Ministerial meeting in December 2005 that all forms of export subsidies should be eliminated by 2013. FAS currently administers four other foreign market development programs that augment the MAP: the Foreign Market Development (Cooperator) Program funded at \$34.5 million in fiscal year 2006, the Emerging Markets Program at \$10 million, the Technical Assistance for Specialty Crops Program at \$2 million, and the Quality Samples Program at \$2.5 million.

Question. In its January 2006 report, the Office of the Inspector General stated that because of the voluntary nature of the enhanced surveillance program and based on USDA published data that estimated the "distribution of the cattle population, as well as those that died or became nonambulatory," it could not determine whether USDA achieved the desired representation. How does USDA know that it is testing a representative sample and that it is testing animals that are at highest risk such as older, clinically normal cattle? Why hasn't USDA released detailed results of the surveillance program, such as age distribution, geographic locations of the sample, and whether the cows were down, neurologic or clinically normal?

Answer. Experience in Europe (where there has been significant Bovine Spongiform Encephalopathy (BSE) exposure and circulating infectivity in contrast to the United States, where we can assume very limited, if any exposure) has shown that testing a targeted population of cattle—those animals exhibiting some type of clinical abnormality—is the method most likely to identify BSE in the national herd. As an example, from 2001 to 2004, a total of 4,798,764 targeted animals were sampled, with a total of 5,486—or approximately 0.11 percent—of the targeted animals testing positive for BSE. In contrast, during that same time frame, a total of 34,207,597 clinically normal animals were sampled, with a total of 982—or approximately 0.003 percent of the clinically normal animals testing positive. These differences clearly demonstrate the efficiencies of sampling subpopulations where the disease is most likely to be detected if it is present. Therefore, since our surveillance efforts began, USDA has consistently focused on sampling these targeted cattle subpopulations. The targeted population includes cattle that have classic clinical signs of BSE, are nonambulatory, exhibit signs of a central nervous system disorder, or cattle that die for unexplained reasons.

With regard to the geographic distribution of the sample obtained in our enhanced surveillance effort, we are still analyzing this information and will present this to the public when our analysis is complete. USDA's surveillance plan looks at this

issue on a national level. It is most important that our sample is obtained from among the animals in our target populations. European reports have shown clearly that this disease is most likely to be found in downed, dying, dead, and diseased animals, so we go to the facilities where these animals are found, regardless of where the animals originate. We have largely worked with animal disposal facilities. In regions where those don't exist, we have made efforts to conduct other types of collection and are confident that we have obtained a sufficient sample that represents the target populations—those animals where we are most likely to detect the disease—within the United States.

CONCLUSION OF HEARINGS

Senator BENNETT. The subcommittee is recessed.

[Whereupon, at 11:20 a.m., Thursday, March 30, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2007

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

NONDEPARTMENTAL WITNESSES

[The following testimonies were received by the Subcommittee on Agriculture, Rural Development, and Related Agencies for inclusion in the record. The submitted materials relate to the fiscal year 2007 budget request for programs within the subcommittee's jurisdiction.]

PREPARED STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

The Farm Security and Rural Investment Act of 2002 (FSRIA) was enacted 4 years ago following 2 years of exhaustive debate in the House and Senate. The new farm law represents a delicate balance by effectively addressing the stability of our agricultural production base, protecting our important natural resources and enhancing nutrition and food assistance programs in our Nation.

The mandatory programs administered by the Department of Agriculture such as commodity, conservation, crop insurance, export promotion programs, nutrition and forestry are of enormous importance to farmers, ranchers, rural businesses, low-income Americans and our Nation's children. Therefore, we respectfully ask the Appropriations Committee to avoid making any changes to mandatory programs within the USDA budget.

Contract-based working lands conservation programs such as the Environmental Quality Incentives Program (EQIP), Conservation Security Program (CSP), Wildlife Habitat Incentives Program (WHIP) and Forest Land Enhancement Program (FLEP) are a priority within the agricultural and landowner community, as shown by current levels of oversubscription. Farm Bureau is concerned that many of these programs have not been funded at optimum levels, especially the Conservation Security Program. This has led to a level of confusion among farmers and ranchers of when and how the program will be implemented within their particular watershed, and whether or not the financial incentives will be adequate to encourage participation. As we move forward in this budget process, Farm Bureau encourages Congress to find an appropriate balance of funding for targeted land idling programs, such as the General and Continuous Conservation Reserve Programs, with our current working lands conservation programs.

Farm Bureau supports the farm bill's energy title that includes provisions for Federal procurement of bio-based products, bio-refinery development grants, a biodiesel fuel education program, renewable energy development program, renewable energy systems, a bioenergy program, biomass research and development and value-added agricultural product development and marketing. These programs play a critical role in assisting in rural economic development as well as in increasing our Nation's energy independence and should be fully funded at authorized levels.

Farm Bureau has identified three areas as priorities for discretionary funding in fiscal year 2006. They are funding for animal identification implementation, programs that maintain the use of agriculture inputs and programs that increase agriculture exports.

PROGRAMS NECESSARY FOR IMPLEMENTATION OF ANIMAL IDENTIFICATION

The threat of bioterrorism and the discovery of bovine spongiform encephalopathy (BSE) in the United States has prompted increased action by USDA and others to step up animal disease surveillance and funding for critical programs such as animal identification. Farm Bureau places great priority on efforts to safeguard our livestock and food supply and requests increased resources be appropriated to the National Animal Identification System (NAIS) for these activities.

We have serious concerns about the adequacy of the administration's proposal for \$33 million for the Animal and Plant Health Inspection Service (APHIS) to continue implementation of the NAIS. Industry estimates of the U.S. Animal Identification Plan (USAIP), upon which the NAIS is based, forecast an ongoing cost of about \$100 million per year to effectively implement such a system. USDA has expended just \$84 million total in the first 2 years of development of the NAIS. When added to this year's budget request, the total Federal fund commitment amounts to approximately \$117 million. This is significantly short of the department's own cost estimate of \$550 million for the first 5 years of NAIS operation.

If the government were to fund \$33 million each year (the same as their budget requests during the first 3 years of operation), two-thirds of the cost of the NAIS would have to be funded by producers and affected industries in order for the NAIS to proceed on the timeline originally proposed by both USDA and the livestock industry. Farmers and ranchers cannot afford to bear the brunt of the cost of this program, which is essentially a public good. Although participating in the NAIS does provide some insurance to producers in the event of an animal health incident, this program also assists Federal animal health officials and is an important tool against the effects of accidental or intentional introduction of zoonotic disease. Given the benefits of the NAIS to the general public and our overall national biosecurity, a larger portion of the cost must be borne by the government.

If the industry bears the cost of identification devices and application of those devices, and the Federal Government were to fund the majority of the cost of database maintenance, program administration, and retro-fitting for data collection at large co-mingling sites (i.e., markets and processing facilities), the end result would be an almost equal funding distribution between industry and government. However, the current budget request will not support this funding split under the timeline proposed in USDA's NAIS Draft Strategic Plan. Under the fiscal year 2007 budget proposal, States and industry would have to bear a greater share of the cost burden in order to maintain the timeline through full implementation in 2009, although States and industry cannot afford to pay for the majority of the system, the United States cannot afford to delay implementation of the system. A delay could be economically devastating in the case of an animal disease outbreak such as foot-and-mouth disease (FMD), both in terms of the impact on the domestic herd and the implications from the loss of trading partners.

We appreciate the inclusion of NAIS funding in the fiscal year 2005 and fiscal year 2006 agriculture funding bills, and strongly encourage the committee to significantly increase that amount in this year's version of the agriculture appropriations bill. Progress has been seen in making premises registration available in all 50 States and multiple tribes. Nationally, just over 10 percent of all livestock premises are now identified, but much work remains to bring the remaining 90 percent into the system. Outreach and education are key to inform producers about the purpose of the NAIS; it is critical to immediately correct the many misconceptions that have circulated and may discourage producers from participating. In addition to continuing funding for APHIS's premises registration activities in cooperation with State animal health officials, we believe it is important to proceed with the next phases of the NAIS—the individual identification of animals or groups of animals, and the tracking of animal movements. The department has turned to the private sector to provide the data repository necessary for animal tracking; therefore, we encourage the committee to consider a cost-share funding allocation for privately managed, non-profit animal ID databases maintained by agricultural organizations. Such databases should be capable of providing multi-species data repository services and access to that data by State and Federal veterinary officials in the event of an animal health issue in order to meet public needs and justify a Federal funding appropriation.

While there are still some major issues to be resolved, primarily data confidentiality, AFBF strongly supports the NAIS. Timely implementation of this critical program will not only add to our ability to trace a diseased animal back to the source but will also reassure the public and our trading partners of a safe food supply system.

PROGRAMS TO INCREASE AGRICULTURAL EXPORTS

Creating new and expanding existing overseas markets for U.S. agricultural and food products is essential for a healthy agricultural economy anytime, but especially in 2006/07 when the USDA is forecasting a reduction in net U.S. farm income of \$15 billion. We recommend full funding of all export development and expansion programs consistent with our WTO commitments.

Export Development and Expansion Programs.—The Market Access Program, the Foreign Market Development Program, the Emerging Markets Program and the Technical Assistance for Specialty Crops program are all very effective export development and expansion programs that have demonstrated substantial increases in demand for U.S. agriculture and food products abroad. These programs are also important because they attract larger amounts of private sector funding into development and expansion activities for U.S. agriculture and food exports. We recommend full funding of these programs.

Farm Bureau also supports General Sales Manager credit guarantee programs. These programs are important because they make available commercial financing to buyers of U.S. food and agricultural exports that might otherwise not be available. They should be funded at fully authorized levels.

Direct assistance for U.S. agricultural exports is also authorized by the Export Enhancement Program, a program to counter unfair trading practices of foreign countries. Farm Bureau supports the funding and use of this program in all countries and for all commodities where the United States faces unfair competition. The Dairy Export Incentive Program is another similar program that allows U.S. dairy producers to compete with foreign nations that subsidize their dairy exports. We recommend full funding of this program as well.

Food Aid Programs.—We urge full funding of Public Law 480 that serves as the primary means by which the United States provides needed foreign food assistance through the purchase of U.S. commodities. In addition to providing short-term humanitarian assistance, the program helps to develop long-term commercial export markets. We oppose any efforts to reduce funding of Public Law 480, especially efforts to transfer funding to other food aid and development programs outside the jurisdiction of USDA. Further, the International Food for Education Program will be an effective platform for delivering severely needed food aid and educational assistance and we urge its full support.

Plant and Animal Health Monitoring, Pest Detection and Control.—USDA services and programs that facilitate U.S. exports by certifying plant and animal health to foreign customers, that protect U.S. agricultural production from foreign pests and diseases, and fight against unsound non-tariff trade barriers by foreign governments should be funding priorities. Plant and animal health monitoring, surveillance and inspection are crucial. We support funding increases for improved plant pest detection and eradication, management of animal health emergencies and to increase the availability of animal vaccines. Expansion of Plant Protection and Quarantine personnel and facilities is necessary to protect U.S. agriculture from new, oftentimes virulent and costly pest problems that enter the United States from foreign lands.

APHIS Trade Issues Resolution and Management.—Full funding is needed for APHIS trade issues resolution and management. As Federal negotiators and U.S. industry try to open foreign markets to U.S. exports, they consistently find that other countries are raising pest and disease concerns (i.e., sanitary and phytosanitary measures), real or contrived, to resist or prohibit the entry of American products into their markets. Only APHIS has the technical capability to respond effectively to this resistance. It requires however, placing more APHIS officers at U.S. ports and in overseas locations where they can monitor pest and disease conditions, negotiate trading protocols with other countries and intervene when foreign officials wrongfully prevent the entry of American imports. It is essential that APHIS be positioned to swiftly and forcefully respond to such issues when and where they arise.

APHIS Biotech Regulatory Service (BRS).—Agricultural biotechnology is an extremely promising technology and all reasonable efforts must be made to allow continued availability and marketability of biotech tools for farmers. BRS plays an important role in overseeing the permit process for products of biotechnology. Funding for BRS personnel and activities are essential for ensuring public confidence and international acceptance of biotechnology products. AFBF supports an increase in spending to \$11.417 million (\$8.584 in 2006) for BRS because it will enable the USDA to increase inspections of genetically-modified crop field test sites and enhance its capacity to regulate transgenic animals, arthropods, and disease agents.

Foreign Agricultural Service (FAS).—The USDA's Foreign Agricultural Service will require sufficient funding to expand services to cover all existing and potential

market posts. We support continuance of funding at the 2006 appropriations level for the office of the secretary for cross-cutting trade negotiations and biotechnology resources.

PROGRAMS THAT MAINTAIN THE USE OF AGRICULTURE INPUTS

USDA must continue to work with EPA, agricultural producers, food processors and registrants to provide farm data required to ensure that agricultural interests are properly considered and fully represented in all pesticide registration, tolerance reassessment re-registration, and registration review processes. In order to participate effectively in the process of ensuring that crop protection tools are safe and remain available to agriculture, USDA must have all the resources necessary to provide economic benefit, scientific analysis and usage information to EPA. To this end, funding should be maintained or increased, and in some cases restored, to the following offices and programs:

Office of Pest Management Policy (OPMP).—OPMP has the primary responsibility for coordination of USDA's Food Quality Protection Act (FQPA) and crop protection obligations and interaction with EPA. Proper funding is vital for the review of tolerance reassessments, particularly dietary and worker exposure information; to identify critical uses, benefits and alternatives information; and to work with grower organizations to develop strategic pest management plans. The funding to OPMP should be designated under the secretary of agriculture's office, rather than as an add-on to the Agricultural Research Service budget.

Agriculture Research Service (ARS).—Integrated Pest Management (IPM) research, minor use tolerance research (IR-4) must have funding maintained, and research on alternatives to methyl bromide must have funding restored and receive future funding to satisfactorily address the unique concerns of these programs. Research is also needed to identify new biological pest control measures and to control pesticide migration.

Cooperative State Research, Education and Extension Service (CSREES).—Funding must be maintained, in some cases restored, and full future funding provided for Integrated Pest Management research grants, IPM application work, pest management alternatives program, expert IPM decision support system, minor crop pest management project (IR-4), crops at risk from FQPA implementation, FQPA risk avoidance and mitigation program for major food crop systems, methyl bromide transition program, regional crop information and policy centers and the pesticide applicator training program.

Economic Research Service (ERS).—USDA and EPA rely on ERS programs to provide unique data information and they should be properly funded including IPM research, pesticide use analysis program and the National Agriculture Pesticide Impact Assessment Program.

Food Quality and Crop Protection Regulation.—Additional funding for proper regulation of pesticides is needed in the following programs: National Agriculture Statistics Service pesticide use surveys; Food Safety Inspection Service increased residue sampling and analysis; Agricultural Marketing Service; and the Pesticide Data Program.

PREPARED STATEMENT OF THE AMERICAN INDIAN HIGHER EDUCATION CONSORTIUM

Mr. Chairman and Members of the Subcommittee, on behalf of the American Indian Higher Education Consortium (AIHEC) and the 33 Tribal Colleges and Universities that comprise the list of 1994 Land Grant Institutions, thank you for this opportunity to share our funding requests for fiscal year 2007 (fiscal year 2007).

This statement is presented in three parts: (a) a summary of our fiscal year 2007 funding recommendation, (b) a brief background on Tribal Colleges and Universities, and (c) an outline of the 1994 Tribal College Land Grant Institutions' plan for using our land grant programs to fulfill the agricultural potential of American Indian communities, and to ensure that American Indians have the skills and support needed to maximize the economic development potential of their resources.

Summary of Requests

We respectfully request the following funding levels for fiscal year 2007 for our land grant programs established within the USDA Cooperative State Research, Education, and Extension Service (CSREES) and Rural Development mission areas. In CSREES, we specifically request: \$12 million payment into the Native American endowment fund; \$3.3 million for the higher education equity grants; \$5 million for the 1994 institutions' competitive extension grants program; \$3 million for the 1994 Institutions' competitive research grants program; and in Rural Development—

Rural Community Advancement Program (RCAP), that \$5 million be provided for each of the next 5 fiscal years for the tribal college community facilities grants program. RCAP grants help to address the critical facilities and infrastructure needs at the colleges that impede our ability to participate fully as land grant partners.

Background on Tribal Colleges and Universities

The first Morrill Act was enacted in 1862 specifically to bring education to the people and to serve their fundamental needs. Today, over 140 years after enactment of the first land grant legislation, the 1994 Land Grant Institutions, as much as any other higher education institutions, exemplify the original intent of the land grant legislation, as they are truly community-based institutions.

The Tribal College Movement was launched in 1968 with the establishment of Navajo Community College, now Dine College, serving the Navajo Nation. Rapid growth of tribal colleges soon followed, primarily in the Northern Plains region. In 1972, the first six tribally controlled colleges established the American Indian Higher Education Consortium to provide a support network for member institutions. Today, AIHEC represents 34 Tribal Colleges and Universities 3 of which comprise the list of 1994 Land Grant Institutions located in 12 States—created specifically to serve the higher education needs of American Indian students. Annually, they serve approximately 30,000 full- and part-time students from over 250 Federally recognized tribes.

All of the 1994 Land Grant Institutions are accredited by independent, regional accreditation agencies and like all institutions of higher education, must undergo stringent performance reviews to retain their accreditation status. Tribal colleges serve as community centers by providing libraries, tribal archives, career centers, economic development and business centers, public meeting places, and child care centers. Despite their many obligations, functions, and notable achievements, tribal colleges remain the most poorly funded institutions of higher education in this country. Most of the 1994 Land Grant Institutions are located on Federal trust territory. Therefore, States have no obligation and in most cases, provide no funding to tribal colleges. In fact, most States do not even fund our institutions for the non-Indian State residents attending our colleges, leaving the tribal colleges to absorb the per student operational costs for non-Indian students enrolled in our institutions, accounting for approximately 20 percent of our student population. Under these inequitable financing conditions and unlike our State land grant partners, our institutions do not benefit from economies of scale—where the cost per student to operate an institution is diminished by the increased size of the student body.

As a result of 200 years of Federal Indian policy—including policies of termination, assimilation and relocation—many reservation residents live in abject poverty comparable to that found in Third World nations. Through the efforts of Tribal Colleges and Universities, American Indian communities are receiving services they need to reestablish themselves as responsible, productive, and self-reliant citizens. It would be regrettable not to expand the very modest investment in, and capitalize on, the human resources that will help open new avenues to economic development, specifically through enhancing the 1994 Institutions' land grant programs, and securing adequate access to information technology.

1994 Land Grant Programs—Ambitious Efforts to Reach Economic Development Potential

Tragically, due to lack of expertise and training, millions of acres on our reservations lie fallow, under used, or have been developed through methods that render the resources nonrenewable. The Equity in Educational Land Grant Status Act of 1994 is starting to rectify this situation and is our hope for future advancement.

Our current land grant programs are small, yet very important to us. It is essential that American Indians explore and adopt new and evolving technologies for managing our lands. We have the potential of becoming significant contributors to the agricultural base of the Nation and the world.

Native American Endowment Fund.—Endowment installments that are paid into the 1994 Institutions' account remain with the U.S. Treasury. Only the annual interest, less the USDA's administrative fee, is distributed to the colleges. The latest gross annual interest yield (fiscal year 2005) is \$2,577,357 after the USDA's administrative fee of \$103,094 is deducted; \$2,474,263 is the amount available to be distributed among all of the eligible 1994 Land Grant Institutions by statutory formula. While we have not yet been provided the latest breakdown of funds distributed to each of the 1994 institutions, last year USDA's administrative fee amounted to more than the payment amounts to 75 percent of the 1994 Land Grant Institutions. After the distribution amounts are determined for this year's disbursement, we fully expect similar results. We respectfully ask that the Subcommittee review

the Department's administrative fee and consider reducing it for this program, so that more of these already limited funds can be utilized to conduct vital 1994 Land Grant community based programs.

Just as other land grant institutions historically received large grants of land or endowments in lieu of land, this endowment assists 1994 Land Grant Institutions in establishing and strengthening our academic programs in such areas as curricula development, faculty preparation, instruction delivery, and to help address critical facilities and infrastructure issues. Many of the colleges have used the endowment funds in conjunction with the Education Equity Grant funds to develop and implement their academic programs. As earlier stated, tribal colleges often serve as primary community centers and although conditions at some have improved substantially, many of the colleges still operate under less than satisfactory conditions. In fact most of the tribal colleges cite improved facilities as one of their highest priorities. Several of the colleges have indicated the need for immediate and substantial renovations to replace buildings that have long exceeded their effective life spans and to upgrade existing facilities to address accessibility and safety concerns.

Endowment payments increase the size of the corpus held by the U.S. Treasury and thereby increase the annual interest yield disbursed to the 1994 land grant institutions. This additional funding would be very helpful in our efforts to continue to support faculty and staff positions and program needs within Agriculture and Natural Resources departments, as well as to continue to help address the critical and very expensive facilities needs at our institutions. Currently, the amount that each college receives from this endowment is not adequate to address curricula development and instruction delivery, as well as make even a dent in the necessary facilities projects at the colleges. In order for the 1994 Institutions to become full partners in this Nation's great land grant system, we need and frankly, under treaty obligations, warrant the facilities and infrastructure necessary to fully engage in education and research programs vital to the future health and well being of our reservation communities. We respectfully request the subcommittee fund the fiscal year 2007 endowment payment at \$12 million, \$120,000 above fiscal year 2006 and the in the President's Budget recommendation—restoring the across-the-board cut imposed on fiscal year 2006 appropriated levels. 1994 Institutions' Educational Equity Grant Program: Closely linked with the endowment fund, this program is designed to assist 1994 land grant institutions with academic programs. Through the modest appropriations made available since fiscal year 2001, the tribal colleges have been able to begin to support courses and plan activities specifically targeting the unique needs of their respective communities.

The 1994 Institutions have developed and implemented courses and programs in natural resource management; environmental sciences; horticulture; forestry; bison production and management; and especially food science and nutrition to address epidemic rates of diabetes and cardiovascular disease on reservations. If more funds were available through the Educational Equity Grant Program, tribal colleges could channel more of their endowment yield to supplement other facilities funds to address their critical infrastructure issues. Authorized at \$100,000 per eligible 1994 Institutions, in fiscal year 2006, approximately \$68,000 or two-thirds of the authorized level was available to the 1994 institutions, after across-the-board cuts and Department fees were applied to the initial appropriated level of \$2,250,000. We respectfully request full funding of \$3.3 million to allow the tribal colleges to build upon the courses and successful activities that have been launched.

Extension Programs.—The 1994 Institutions' extension programs strengthen communities through outreach programs designed to bolster economic development; community resources; family and youth development; natural resources development; agriculture; as well as health and nutrition awareness.

In fiscal year 2006, \$3,273,000 was appropriated for the 1994 Institutions' competitive extension grants, a slight increase over fiscal year 2005. Without adequate funding, 1994 Institutions' ability to maintain existing programs and to respond to emerging issues such as food safety and homeland security, especially on border reservations, is severely limited. Increases in funding are needed to support these vital programs designed to address the inadequate extension services provided to Indian reservations by their respective State programs. It is important to note that the 1994 extension program is designed to complement the Indian Reservation Extension Agent program and does not duplicate extension activities. 1994 Land Grant programs are funded at very modest levels. The tribal college land grants have applied their ingenuity for making the most of every dollar they have at their disposal by leveraging funds to maximize their programs whenever possible. For example, College of Menominee Nation (CMN) in Keshena, Wisconsin, has a multiyear program that leverages funding from several activities to expand its extension program, which focuses on strengthening the economic capacity of the local community.

Partnering with U.S. Department of Health and Human Services, CMN is designing curriculum that involves tribal elders, relevant service providers, local schools, the Commission on Aging, and health clinics designed to encourage minority youth to enter Allied Health fields. With a grant from the Wisconsin Department of Transportation, the college's extension and outreach offers the Transportation Alliance for New Solutions (TRANS) program. This is a 120 hour program designed to train women and minorities in roads construction. In addition, the Federal Highway Administration and the Wisconsin Department of Transportation have provided grant funds to CMN extension and outreach to conduct a Summer Transportation Institute focusing on middle school students. Students spend 4 weeks exploring various careers within the transportation industry. CMN is just one example of the innovative programs being conducted at 1994 Institutions. To continue and expand these successful programs, we request the Subcommittee support this competitive program by appropriating \$5 million to sustain the growth and further success of these essential community based programs.

1994 Research Program.—As the 1994 Land Grant Institutions have begun to enter into partnerships with 1862/1890 land grant institutions through collaborative research projects, impressive efforts to address economic development through land use have come to light. Our research program illustrates an ideal combination of Federal resources and tribal college-state institutional expertise, with the overall impact being far greater than the sum of its parts. We recognize the budget constraints under which Congress is functioning. However, \$1,039,000, the fiscal year 2006 appropriated level, is a 4.4 percent decrease in funding that was already grossly inadequate. This research program is vital to ensuring that tribal colleges may finally become full partners in the Nation's land grant system. Many of our institutions are currently conducting agriculture based applied research, yet finding the resources to conduct this research to meet their communities' needs is a constant challenge. This research authority opens the door to new funding opportunities to maintain and expand the research projects begun at the 1994 Institutions, but only if adequate funds are appropriated. \$1,039,000 for 33 institutions to compete for is clearly inadequate. Project areas being studied include soil and water quality, amphibian propagation, pesticide and wildlife research, range cattle species enhancement, and native plant preservation for medicinal and economic purposes. We strongly urge the Subcommittee to fund this program at a minimum of \$3 million to enable our institutions to develop and strengthen their research potential.

Rural Community Advancement Program (RCAP).—In fiscal year 2006, \$4,464,000 of the RCAP funds appropriated for loans and grants to benefit Federally recognized American Indian tribes were targeted for community facility grants for improvements at Tribal Colleges and Universities. This amounts to an increase of \$464,000 over the level that had been allocated to the program each year since it began in fiscal year 2001. This program requires a minimum 25 percent non-Federal match. Tribal colleges are chartered by their respective tribes, which enjoy a government-to-government relationship with the Federal Government. Due to this relationship, tribal colleges have very limited access to non-Federal dollars making non-Federal matching requirements a significant barrier to our colleges' ability to compete for much needed funds. The 2002 Farm Security and Rural Investment Act, (Public Law 107-171) included language limiting the non-Federal match requirement for the Rural Cooperative Development Grants to no more than 5 percent in the case of a 1994 institution. We would like to have this same language applied to the RCAP community facilities grants for tribal colleges to open the door to more 1994 Institutions to compete for these dollars.

We urge the Subcommittee to designate \$5 million for each of the next 5 fiscal years to afford the 1994 institutions the means to aggressively address critical facilities needs, thereby allowing them to better serve their students and respective communities. Additionally, we request that Congress include language directing the agency to limit the non-Federal matching requirement to not more than 5 percent, the same level as applied to the Rural Cooperative Development Grants program, to help the 1994 land grant institutions to effectively address critical facilities and construction issues at their institutions.

Conclusion

The 1994 Land Grant Institutions have proven to be efficient and effective vehicles for bringing educational opportunities to American Indians and hope for self-sufficiency to some of this Nation's poorest regions. The modest Federal investment in the 1994 Land Grant Institutions has already paid great dividends in terms of increased employment, education, and economic development. Continuation of this investment makes sound moral and fiscal sense. American Indian reservation communities are second to none in their potential for benefiting from effective land

grant programs and as earlier stated no institutions better exemplify the original intent of the land grant concept than the 1994 Land Grant Institutions.

We appreciate your support of the Tribal Colleges and Universities and we ask you to renew your commitment to help move our communities toward self-sufficiency. We look forward to continuing our partnership with you, the U.S. Department of Agriculture, and the other members of the Nation's land grant system—a partnership that will bring equitable educational, agricultural, and economic opportunities to Indian Country.

Thank you for this opportunity to present our funding proposals to this Subcommittee. We respectfully request your continued support and

PREPARED STATEMENT OF THE AMERICAN PUBLIC POWER ASSOCIATION

The American Public Power Association (APPA) is the national service organization representing the interests of over 2,000 municipal and other state and locally owned utilities throughout the United States (all but Hawaii). Collectively, public power utilities deliver electricity to one of every seven electricity consumers (approximately 43 million people), serving some of the nation's largest cities. However, the vast majority of APPA's members serve communities with populations of 10,000 people or less.

We appreciate the opportunity to submit this statement outlining our fiscal year 2007 funding priorities within the jurisdiction of the Agriculture, Rural Development, and Related Agencies Subcommittee.

Department of Agriculture: Rural Utility Service Rural Broadband Loan Program

APPA urges the Subcommittee to fully fund the Rural Utility Service's (RUS) Rural Broadband Loan Program at \$10 million, as authorized in the 2002 Farm Bill. A funding level of \$10 million would produce approximately \$356 million in RUS loans for fiscal year 2007.

APPA believes it is important to provide incentives for the deployment of broadband to rural communities, many of which lack broadband service. Increasingly, access to advanced communications services is considered vital to a community's economic and educational development. In addition, the availability of broadband service enables rural communities to provide advanced health care through telemedicine and to promote regional competitiveness and other benefits that contribute to a high quality of life. Approximately one-fourth of APPA's members are currently providing broadband service in their communities. Several APPA members are planning to apply for RUS broadband loans to help them finance their broadband projects.

PREPARED STATEMENT OF THE AMERICAN SOCIETY OF AGRONOMY, CROP SCIENCE SOCIETY OF AMERICA, AND SOIL SCIENCE SOCIETY OF AMERICA

Dear Chairman Bennett, Ranking Member Kohl and Members of the Subcommittee: On behalf of the American Society of Agronomy, Crop Science Society of America, Soil Science Society of America (ASA/CSSA/SSSA), we are pleased to submit comments in strong support of enhanced public investment in food and agricultural research, extension and education as a critical component of federal appropriations for fiscal year 2007 and beyond. With nearly 18,000 members, ASA/CSSA/SSSA are the largest life science professional societies in the United States dedicated to the agronomic, crop and soil sciences. ASA/CSSA/SSSA play a major role in promoting progress in these sciences through the publication of quality journals and books, convening meetings and workshops, developing educational, training, and public information programs, providing scientific advice to inform public policy, and promoting ethical conduct among practitioners of agronomy and crop and soil sciences. The programs and activities of ASA/CSSA/SSSA are tailored not only to our members' interests and scientific advancement, but also serve the public interest. ASA/CSSA/SSSA publish six peer-reviewed journals in which over 1100 scientific articles are published yearly. The peer-review procedures for manuscripts published in ASA/CSSA/SSSA journals as well as our activities and procedures for publishing ensure the highest quality and integrity in our scientific literature.

ASA/CSSA/SSSA understand the challenges the Senate Agriculture Appropriations Subcommittee faces with the tight agriculture budget for fiscal year 2007. We also recognize that the Agriculture Appropriations bill has many valuable and necessary components, and we applaud the efforts of the Subcommittee to fund mission-critical research through the USDA-Cooperative State, Research, Education and Extension Service as well as its intramural research portfolio funded through

the Agricultural Research Service. We are particularly grateful to the Subcommittee for funding the NRI at \$181 million in fiscal year 2006. Below we have highlighted recommendations for the fiscal year 2007 appropriations cycle.

Agricultural Research Service

ASA/CSSA/SSSA understand the agency's need to reprogram approximately \$49.1 million in funding to higher priority areas such as homeland security, emerging diseases, food safety, obesity, climate change, invasive species, and genomics and genetics. ASA/CSSA/SSSA applaud ARS's ability to respond quickly and flexibly to rapidly changing national needs. The proposed increase of \$57.7 in new monies for these high priority areas is also commended. However, ASA/CSSA/SSSA are concerned that the proposed overall cut in total funding for ARS of \$123, or 11 percent, from fiscal year 2006 enacted, could result in decreased research capacity and/or the elimination of important research programs currently underway. ASA/CSSA/SSSA urge the Subcommittee to act judiciously and not implement such drastic funding cuts for this critical research agency.

Cooperative State Research, Education, and Extension Service

National Research Initiative.—ASA/CSSA/SSSA strongly endorse the President's proposed fiscal year 2007 budget increase of \$66.3 million for the National Research Initiative Competitive Grants Program (NRI) which would bring total funding for this important research program to \$247.5 million. However, we do not support the President's proposal to transfer the \$42.3 million Sec 406 (Integrated Research, Education, and Extension program) program into the NRI. This transfer may result in the loss of critical programs such as the Organic Transitions Program.

NRI Integrated Research.—ASA/CSSA/SSSA request that any new monies appropriated for the NRI, as requested by the administration, allow the Secretary the discretion to apply up to 30 percent towards carrying out the NRI integrated research, extension and education competitive grants program.

Sustainable Agriculture Research and Education Programs.—ASA/CSSA/SSSA oppose the administration's request to cut funding for SARE by more than \$3 million. At a minimum, the Subcommittee should fund SARE at the fiscal year 2006 enacted (pre-rescission) level of \$12.4 million.

Indirect Costs.—ASA/CSSA/SSSA applaud the administration's proposal to eliminate the indirect cost cap on the NRI, set at 20 percent for fiscal year 2006, which will broaden its appeal by putting the NRI on equal footing with other federal competitive grants programs such as those of NSF and NIH. However, we are concerned that new funding was not provided to cover this change.

Research Formula Funding.—ASA/CSSA/SSSA oppose the administration's proposal to change the methodology for distributing Hatch Funds and McIntire-Stennis Funds through a multistate, competitively awarded proposal program. Such drastic changes would be detrimental to the entire USDA research portfolio. Because of their timing and potential regional and intra-state impacts, much of the infrastructure needed to conduct competitively funded research could be compromised if formula funds were to be redirected as proposed, and could irreparably damage programs housed at each land-grant university. This would mean a huge and potentially damaging loss of national infrastructure to conduct agricultural research. The private sector depends heavily on the agricultural technology and training provided by the U.S. land grant system, and the impact of such a drastic transfer of formula funds to a competitive grants program would affect not only the viability of U.S. industry but also the health and survival of millions of people across the globe. Moreover, as noted below, investments in formula funded research show an excellent annual rate of return.

Agrosecurity.—ASA/CSSA/SSSA support the request of the administration that \$12 million be provided for the Animal and Plant Diagnostic Labs and EDEN to facilitate protecting America's agricultural production systems. ASA/CSSA/SSSA also endorse the administration's request (\$5.0 million) for the Agrosecurity Curricula Development, which we consider to be a critical new initiative. Recent security threats facing America require new and expanded agricultural research to protect our nation's natural resources, food processing and distribution network, and rural communities that will secure America's food and fiber system.

Higher Education.—ASA/CSSA/SSSA urge the Subcommittee to fund the Institution Challenge Grants at \$6 million which will restore some of the funding lost due to the 2006 rescission. We applaud the Administration's budget request of \$4.445 million for the Graduate Fellowships Grants.

Extension Formula Funding.—Extension forms a critical part of the research, education and extension program integration, the hallmark of CSREES which is not seen in other agencies. Unfortunately, the Smith Lever 3(b) and 3(c) account has

been flat-funded (in constant dollars, this account has seen a gradual erosion in funding), in recent years. Moreover, the current trend of annual rescissions has resulted in an even lower funding level for this and other vital extension programs. ASA/CSSA/SSSA proposes, at a minimum, that the Subcommittee restore funding for Smith Lever 3(b) and 3(c) to the fiscal year 2006 pre-rescission enacted level of \$275.73 million.

A balance of funding mechanisms, including intramural, competitive and formula funding, is essential to maintain the capacity of the United States to conduct both basic and applied agricultural research, improve crop and livestock quality, and deliver safe and nutritious food products, while protecting and enhancing the Nation's environment and natural resources. In order to address these challenges and maintain our position in an increasingly competitive world, we must continue to support research programs funded through ARS and CSREES. Congress must enhance funding for agricultural research to assure Americans of a safe and nutritious food supply and to provide for the next generation of research scientists. According to the USDA's Economic Research Service (Agricultural Economic Report Number 735), publicly funded agricultural research has earned an annual rate of return of 35 percent. This rate of return suggests that additional allocation of funds to support research in the food and agricultural sciences would be beneficial to the U.S. economy. We must also continue support for CSREES-funded education programs which will help ensure that a new generation of educators and researchers is produced. Finally, we need to ensure support for extension at CSREES to guarantee that these important new tools and technologies reach and are utilized by producers and other stakeholders.

As you lead the Congress in deliberation on funding levels for agricultural research, please consider American Society of Agronomy, Crop Science Society of America, Soil Science Society of America as supportive resources. We hope you will call on our membership and scientific expertise whenever the need arises.

PREPARED STATEMENT OF THE AMERICAN SOCIETY OF CIVIL ENGINEERS

The American Society of Civil Engineers (ASCE) is pleased to offer this testimony on the President's proposed budget for the Natural Resources Conservation Service (NRCS) for fiscal year 2007.

ASCE was founded in 1852 and is the country's oldest national civil engineering organization. It represents more than 139,000 civil engineers in private practice, government, industry and academia who are dedicated to the advancement of the science and profession of civil engineering. ASCE is a 501(c)(3) non-profit educational and professional society.

The Administration's proposed fiscal year 2007 budget includes only \$15.3 million in discretionary appropriations to fund rehabilitation of unsafe and seriously deficient dams that were originally constructed under USDA Watershed Programs. This is more than a 50 percent reduction from the fiscal year 2006 when \$31.5 million was appropriated by Congress.

ASCE respectfully requests that this Subcommittee increase the Administration's proposed appropriation to \$75 million. This amount is \$60 million less than the total \$135 million authorized in the 2002 Farm Bill which includes discretionary funds and Commodity Credit Corporation (CCC) mandatory funding.

Of the 78,000 dams in the United States, 95 percent are regulated by the states. Approximately 10,400 of these dams are small watershed structures built under the United States Department of Agriculture programs authorized by Congress beginning in the 1940s (primarily the Flood Control Act of 1944, Public Law 78-534 and the Watershed Protection and Flood Control Act of 1953, Public Law 83-566). By the year 2020, more than 85 percent of all dams in the United States will be more than 50 years old, the typical useful life span.

THE URGENT NEED FOR FEDERAL ACTION

The benefits from the 11,000 improved watershed dams are enormous. The dams provide downstream flood protection, water quality, irrigation, local water supplies and needed recreation. Yet these benefits to lives and property are threatened. The small watershed dams are approaching the end of their useful lives as critical components deteriorate. The reservoirs become completely filled with sediment, downstream development increases the potential hazards and significantly changes the design standards, and many dams do not meet State dam safety standards.

Although these dams were constructed with technical and financial assistance from the Department of Agriculture, local sponsors were then responsible for operation and maintenance of the structures. Now these dams are approaching the end

of their useful lives, yet the resource need is still great. The flood control benefits, the irrigation needs, the water supply, the recreation and the conservation demands do not end. In fact, they are more necessary than ever as downstream development has dramatically increased the number of people, properties and infrastructure that are protected by the flood control functions of these dams. The Federal Government has a critical leadership role in assuring that these dams continue to provide critical safety and resource needs.

The NRCS in the Department of Agriculture has estimated the cost of rehabilitating the small watershed dams at \$542 million. While the average rehabilitation cost per dam is approximately \$242,000, the local sponsors typically do not have sufficient financial resources to complete these necessary repairs to assure the safety and critical functions of these dams. The Federal Government must recognize the urgent need to provide assistance to maintain these dams. Congress should reinforce its earlier commitment to the goals of the Flood Control Acts of 1944 and 1953.

Since the program began, there have been 136 watershed rehabilitation projects initiated in 21 States, which include 47 completed rehabilitation projects and 89 projects either in the planning, design or construction phase. It is clear from these 136 projects as well as the 76 projects, which requested assistance but were unable to be funded in fiscal year 2006, just how much demand exists; and how successful this USDA program is.

EXTENT OF THE PROBLEM

ASCE views the funding of dam safety repairs as a critical need for the nation. In ASCE's 2005 Report Card for America's Infrastructure dams received a grade of D. Nearly 3,500 unsafe dams have been identified in this country and many of the owners do not have sufficient funding sources.

More than 900 watershed dams across the nation will need rehabilitation in just the next five years at a cost of over \$570 million. These numbers will increase as dams get older and thousands of people and millions of dollars of property could be at risk if these dams should fail. That is why Congress authorized \$600 million for rehabilitation for 2003–2007 in the last Farm Bill. Local watershed project sponsors provide 35 percent of the cost of the rehabilitation projects and many have local cost-share funds ready for projects that could be lost if the Federal money isn't made available.

Many of these urgent repairs and modifications are needed because of the following: downstream development within the dam failure flood zone, replacement of critical dam components, inadequate spillway capacity due to significant watershed development and increased design criteria due to downstream development.

Many of the small watershed dams do not meet minimum State dam safety standards and many that are being counted on for flood protection can no longer provide flood protection due to excessive sedimentation and significant increases in runoff from development within the watershed. The dams suffer from cracked concrete spillways, failing spillways, inoperable lake drains and other problems that require major repairs that are beyond the capability of the local sponsors.

THE COST OF NO ACTION

These small watershed dams have been a silent and beneficial part of the landscape. Failure to make the necessary upgrades, repairs and modifications will increase the likelihood of dam failures. Continued neglect of these structures may easily result in reduced flood control capacity causing increased downstream flooding. Failure of a dam providing water supply would result in a lack of drinking water or important irrigation water.

The recent dam failures in Hawaii and Missouri, and the near failure in Massachusetts last year have brought into tragic focus for the public the impact aging and under-funded dams can have on a community. The floods in Georgia in 1993 and in the Midwest in 1994 are recent reminders of natural events that can cause enormous disasters, including dam failures. The failure to act quickly will clearly result in continued deterioration and a greater number of unsafe dams until a dam failure disaster occurs. The failure of a 38-foot tall dam in New Hampshire in 1996, which caused \$5.5 million in damage and one death, should be a constant reminder that dam failures happen and can have tragic consequences.

Completion of the needed repairs will result in safer dams, as well as continued benefits. Failure to establish a mechanism to reinvest in these structures will greatly increase the chances of dam failures and loss of benefits, both having significant economic and human consequences. Costs resulting from flood damage and dam failure damage are high and unnecessarily tap the Federal Government through disaster relief funds or the National Flood Insurance Program.

RECOMMENDATION

ASCE asks that the Subcommittee view funding the Rehabilitation of Watershed Dams as a significant re-investment in the benefits of the program and an investment in the safety of these dams. Therefore, ASCE respectfully requests that this Subcommittee provide additional appropriations beyond the Administration's request to \$75 million for fiscal year 2006.

The condition of our Nation's dams, and the need for watershed structure rehabilitation, should be a national priority before we have to clean up after dam failures that we know are likely to happen if nothing is done.

PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR MICROBIOLOGY

The American Society for Microbiology (ASM) appreciates the opportunity to submit testimony on the fiscal year 2007 appropriation for the United States Department of Agriculture (USDA). The ASM is the largest single life science organization in the world, with more than 42,000 members who work in academic, industrial, medical, and governmental institutions. The ASM's mission is to enhance the science of microbiology, to gain a better understanding of life processes, and to promote the application of this knowledge for improved plant, animal and human health, and for economic and environmental well-being.

The USDA sponsors research and education programs, which meet the USDA's strategic goals of enhancing competitiveness and sustainability of U.S. agriculture; increasing economic opportunities and improving quality of life in rural America; enhancing protection and safety of the Nation's agriculture and food supply; improving the Nation's nutrition and health; and protecting and enhancing the Nation's natural resource base and environment. U.S. agriculture faces new challenges, including threats from emerging infectious diseases in plants and animals such as avian influenza, as well as threats from climate change, and public concern about food safety and security. It is critical to increase the visibility and investment in agriculture research to respond to these challenges. The ASM urges Congress to provide increased funding for research programs within the USDA in fiscal year 2007.

Microbiological research in agriculture is vital to understanding and finding solutions to foodborne diseases, endemic diseases of long standing, new and emerging plant and animal diseases, development of new agriculture products and processes and addressing existing and emerging environmental challenges. Unfortunately, Federal investment in agricultural research has not kept pace with the need for additional agricultural research to solve emerging problems. The USDA funds more than 90 percent of all Federal support for the agricultural sciences. According to the USDA Economic Research Service (ERS) report, *Agricultural Research and Development: Public and Private Investments Under Alternative Markets and Institutions*, the rate of return on public investment in basic agricultural research is estimated to be between 60 and 90 percent.

USDA National Research Initiative Competitive Grants Program

The National Research Initiative Competitive Grants Program (NRI) was established in 1991 in response to recommendations outlined in *Investing in Research: A Proposal to Strengthen the Agricultural, Food and Environmental System*, a 1989 report by the National Research Council's (NRC) Board on Agriculture. This publication called for increased funding of high priority research that is supported by the USDA through a competitive peer-review process directed at:

- Increasing the competitiveness of U.S. agriculture.
- Improving human health and well-being through an abundant, safe, and high-quality food supply.
- Sustaining the quality and productivity of the natural resources and the environment upon which agriculture depends.

Continued interest in and support of the NRI is reflected in two subsequent NRC reports, *Investing in the National Research Initiative: An Update of the Competitive Grants Program of the U.S. Department of Agriculture*, published in 1994, and *National Research Initiative: A Vital Competitive Grants Program in Food, Fiber, and Natural Resources Research*, published in 2000.

Today, the NRI, housed within the USDA Cooperative State Research, Education, and Extension Service (CSREES), supports research on key problems of national and regional importance in biological, environmental, physical, and social sciences relevant to agriculture, food, and the environment on a peer-reviewed, competitive basis. Additionally, the NRI enables the USDA to develop new partnerships with other Federal agencies that advance agricultural science. Examples of such collaborations include the USDA's involvement in the Microbial Genome Sequencing Pro-

gram, the Maize Genome Program, the Microbial Observatories program, the Plant Feedstock Genomics for Bioenergy program, the Metabolic Engineering program, and the Climate Change Science Plan.

The ASM urges Congress to support the Administration's requested increase for the NRI in fiscal year 2007. NRI's proposed increase comes from shifting the CSREES Integrated Activities, such as food safety, pest management, and water quality, making up \$42.7 million of the proposed increase, providing a net increase of \$24 million for the NRI including the additional responsibility of the Integrated Programs. The ASM supports the Administration's effort to increase competitively awarded funding mechanisms and believes that competitive grants ensure the best science.

Additional funding for the NRI is needed to expand research in microbial genomics and to provide more funding for merit reviewed basic research with long-term potential for new discoveries and products. It is critical to increase the visibility and investment in agriculture research to respond to these challenges and we appreciate Congress's efforts to fund the NRI at \$181 million in fiscal year 2006 and urge Congress to support the Administration's fiscal year 2007 request of \$247.5 million for this program.

Agricultural Research Service

The Agricultural Research Service (ARS) is the USDA's chief scientific research agency, which conducts research to develop new scientific knowledge, transfers technology to the private sector to solve critical agricultural problems of broad scope and high national priority, and provides access to scientific data. The ARS supports approximately 1,200 individual research projects conducted by scientists from the USDA at over 100 Federal facilities. The Administration requests approximately \$1.03 billion for the ARS in fiscal year 2007, a 20 percent decrease from fiscal year 2006. The ASM urges Congress to strongly support the ARS in fiscal year 2007.

USDA Food and Agriculture Defense Initiative

The Food and Agriculture Defense Initiative is an interagency initiative to improve the Federal Government's capability to rapidly identify and characterize a bioterrorist attack, by improving the national surveillance capabilities in human health, food, agriculture, and environmental monitoring. The ASM supports the Administration's request for this initiative of \$322 million for fiscal year 2007, an increase of \$127 million over fiscal year 2006. This does not include funding for construction of the Ames, Iowa facility for animal research and diagnostics, which was fully funded in fiscal year 2006. Of the total amount, an increase of approximately \$30 million for Food Defense would enhance the Food Safety and Inspection Service's (FSIS) ability to detect and respond to food emergencies and for the USDA's research agencies to conduct related research. For Agriculture Defense, the budget includes a \$97 million increase to improve the Animal and Plant Health Inspection Service's (APHIS) monitoring and surveillance of plant and animal health, including wildlife; response capabilities, including provisions for the National Veterinary Stockpile; and further research on emerging and exotic diseases.

The ASM supports this greater emphasis on research in the Food and Agriculture Defense Initiative and recommends an increase in funding, both extramural and intramural, for research on pathogenic microorganisms as part of the Food and Agriculture Defense Initiative.

Food Safety

The Centers for Disease Control (CDC) estimates that each year 76 million people get sick, more than 300,000 are hospitalized, and 5,000 die because of foodborne illnesses. Primarily the very young, the elderly, and the immunocompromised are affected. Recent changes in human demographics and food preferences, changes in food production and distribution systems, microbial adaptation, and lack of support for public health resources and infrastructure have led to the emergence of novel as well as traditional foodborne diseases. With increasing travel and trade opportunities, it is not surprising that now there is a greater risk of contracting and spreading a foodborne illness locally, regionally, and even globally. (MMWR 2004;53[No. RR-04]). The USDA's Economic Research Service (ERS) estimates that the medical costs, productivity losses, and costs of premature deaths for diseases caused by just five types of foodborne pathogens exceeds \$6.9 billion per year in the United States. The USDA plays a vital role in the government's effort to reduce the incidence of foodborne illness. Continued and sustained research is important to safeguarding the Nation's food supply and focusing on methods and technologies to prevent microbial foodborne disease and emerging pathogens. The ASM supports the requested increases for the Food and Agriculture Defense Initiative and the Food Safety and Inspection Service. Without sustained significant increases in the level of food safety

research funding, meeting the National Health Objectives for 2010 in all likelihood will not become reality. The ASM recommends a substantial increase in food safety research, which is essential to ensure the protection of the Nation's health.

Genomics Initiative

The NRI and the ARS fund the USDA collaborative efforts in the field of genomics. There are opportunities to leverage the USDA's investments with those of the National Institutes of Health (NIH), the Department of Energy (DOE), and the National Science Foundation (NSF) in projects to map and sequence the genomes of agriculturally important species of plants, animals, and microbes. Determining the function of the sequenced genomes (functional genomics) and analyses of the data (bioinformatics) now need investment for new management techniques and tools. The USDA plays an important role in coordinating and participating in interagency workgroups on domestic animal, microbial, and plant genomics. Access to genomic information and the new tools to utilize it have implications for virtually all aspects of agriculture. The ASM urges Congress to provide strong support for the USDA genomics initiative.

Emerging Infectious Diseases in Plants and Animals

The food production and distribution system in the United States is vulnerable to the introduction of pathogens and toxins through natural processes, global commerce, and intentional means. The ASM supports increases in the USDA research budget for emerging diseases and invasive species. Nearly 200 zoonotic diseases can be naturally transmitted from animals to man and opportunistic plant pathogens and soil-inhabiting microorganisms can be causal agents of infection and disease in humans. For emerging diseases to be effectively detected and controlled the biology, ecology, and mechanisms for pathogenicity of the causal pathogens must be understood and weaknesses exploited to limit their impact. This research will help address the risk to humans from emerging diseases and opportunistic pathogens, and will ensure the safety of plant and animal products. Additionally, expanded research is needed to accelerate the development of information and technologies for the protection of United States agricultural commodities, wildlife and human health against emerging diseases.

Antimicrobial Resistance Research

The USDA plays a key role in addressing the national and global increase in antimicrobial resistance and the complex issues surrounding this public health threat. The ARS Strategic Plan for 2003–2007 states the need to “determine how antimicrobial resistance is acquired, transmitted, maintained, in food-producing animals, and develop technologies or altered management strategies to control its occurrence.” In 1996, the Department of Health and Human Services (HHS) and the USDA established the National Antimicrobial Resistance Monitoring System (NARMS) to monitor trends in antimicrobial resistance in foodborne pathogens; the USDA has expanded monitoring to include the Collaboration on Animal Health Food Safety Epidemiology (CAHFSE) program. The USDA support for these projects should continue and the ASM urges Congress to increase support for antimicrobial resistance surveillance, research, prevention, and control programs.

Conclusion

The USDA's mission and goals of leadership on food, agriculture, and natural resources, based on sound public policy, the best available science, and efficient management should be strongly supported. With a significant investment in research, the USDA will be better able to meet its goals. The ASM urges Congress to increase funding for agricultural research programs to enable the USDA to help ensure a safe, nutritious and plentiful food supply for America. This includes providing \$247.5 million for the NRI in fiscal year 2007.

The ASM appreciates the opportunity to provide written testimony and would be pleased to assist the Subcommittee as the Department of Agriculture bill is considered throughout the appropriations process.

PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR MICROBIOLOGY

The American Society for Microbiology (ASM) is submitting the following statement in support of increased funding for the fiscal year 2007 budget of the Food and Drug Administration (FDA). The ASM is the largest single life science society in the world with over 42,000 members who are involved in basic and applied research and testing in university, industry, government and clinical laboratories.

The Administration's fiscal year 2007 budget request of \$1.95 billion for the FDA includes \$1.55 billion in budget authority and \$402 million in industry user fees, a total increase of \$70.8 million or 3.8 percent over the fiscal year 2006 budget. Despite the proposed increase, the FDA's budget continues to be constrained, especially in view of the increasing demands on the FDA related to food safety, pandemic influenza, new and emerging infectious diseases, such as West Nile and Mad Cow Disease, drug safety, and initiatives to advance innovation in medical product development. The ASM recommends that Congress provide additional funding for the FDA to increase its fiscal year 2007 proposed budget. Increased support for the FDA will enable the Agency to enhance programs that protect against unsafe healthcare products, unhealthy foods, and health challenges from bioterrorism or natural disasters. The FDA regulates products that account for almost 25 percent of U.S. consumer spending, including 80 percent of our national food supply and all human drugs, vaccines, medical devices, tissues for transplantation, equipment that emits radiation, cosmetics, and animal drugs and feed. Together these products are worth nearly \$1.5 trillion annually and affect the daily lives of people.

Protecting America's Health—Pandemic Preparedness

The specter of a potential influenza pandemic requires increased resources for preparedness. Recent research has found that viruses responsible for the three influenza pandemics in the past century carried genes from avian influenza viruses. In the current H5N1 outbreak, the World Health Organization has confirmed about 186 human cases although thus far the virus does not spread readily from human to human. If viral mutations make human-to-human transmission a tragic reality, however, a deadly pandemic could cause millions of human deaths and billions in economic costs. The FDA request for fiscal year 2007 asks for \$55.3 million for pandemic preparedness, an amount \$30.5 million more than the fiscal year 2006 level.

The FDA provides unique support to the recently launched National Strategy for Pandemic Influenza, a broad, multi-agency effort to better prepare the United States for any pandemic influenza. This Federal response targets three primary goals: detect and contain outbreaks wherever they occur; ensure that Federal, State, and local communities are prepared; and stockpile vaccines and antiviral drugs through accelerated development of new vaccine technologies and greatly increased U.S. production capacity. Last December, when the Department of Health and Human Services (DHHS) announced its Pandemic Influenza Plan as part of the Federal strategy, the ASM endorsed its priority of increased vaccine manufacturing capacity (enough vaccine for all Americans within 6 months of a domestic outbreak). At present, there are not nearly enough vaccines and antiviral drugs to meet Federal goals. The ASM is concerned that adequate funding be given to the FDA, which will be a central figure in vaccine and antiviral development and manufacturing. Heightened output using new technologies will further burden the FDA's product evaluation process, already stretched by research responses to emerging infectious pathogens like SARS and West Nile virus.

Scientists at the FDA's Center for Biologics Evaluation and Research (CBER) and Center for Drug Evaluation and Research (CDER) will shoulder much of the Agency's growing vaccine and antiviral contribution towards pandemic preparedness. Researchers from the FDA and their private-industry partners will tackle the critical issues of expanding U.S. capacity for traditional egg-based vaccine production, the technological transition to cell-culture-based vaccine production, and development of innovative vaccines and therapeutic drugs. Through the FDA's Critical Path Initiative to get products to market more quickly, accelerated approval can help expedite the Federal stockpile of vaccines and antivirals needed to counter pandemic influenza.

The FDA not only assures the safety and efficacy of new products, but agency personnel also provide technical support to manufacturers from laboratory to market. In early March, the FDA issued two sets of draft recommendations to aid manufacturers in developing vaccines, one for seasonal, one for pandemic influenza. Seasonal influenza is an ever present threat to American health and with pneumonia, it remains the leading infectious cause of U.S. deaths. The two guidances also address some promising higher-output technologies for vaccine production, such as cell culture and recombinant manufacturing. The scientific advances from the FDA's influenza activities will undoubtedly heighten protection against infectious diseases in general, as well as production of antiviral vaccines and drugs in particular. Efforts by the influenza preparedness programs also will improve the safety of our national food supply. Scientists from the FDA are developing new methods to detect antiviral drug residues in food, while FDA communications personnel are creating public guidelines on food preparation in the event that avian influenza reaches poultry flocks in the United States.

Protecting America's Health—Food Security and Safety

The FDA oversees about 80 percent of the nation's entire food supply, with only the exception of meat, poultry, and some egg products regulated by the Department of Agriculture (USDA). Within the FDA, the Center for Food Safety and Applied Nutrition (CFSAN) and the Office of Regulatory Affairs are responsible each year for goods worth \$417 billion in domestically produced foods and \$49 billion in imported foods. In fiscal year 2007, the agency's Prior Notice Center is expecting to process daily up to 20,000 notifications of food import shipments. The FDA's food safety efforts involve reams of regulations, constant laboratory testing with the latest methods, and field inspections of producers and handlers from among the 420,000 FDA-registered food establishments here and abroad. The Administration's proposed fiscal year 2007 budget requests about \$450 million for the FDA foods program, an increase of \$11 million over last fiscal year. Within this total, \$178 million is earmarked for protecting our food against deliberate attacks, a \$20 million increase over fiscal year 2006.

The CFSAN conducts research typically not conducted by industry or other research agencies, which provides the basis for regulating the food-producing and processing industries to ensure a safe and nutritious food supply from farm to table. It provides the scientific basis for nutrition labeling regulations and guidance, identification of foodborne pathogens, the development of mitigation and prevention strategies, as well as identifying and recommending the adoption of innovative technologies that reduce public health concerns related to foodborne pathogens. The ASM is concerned with the proposed \$5.2 million reduction for the CFSAN in fiscal year 2007, and the redirection of resources from base programs that includes cuts to the CFSAN's research program and the loss of 64 full-time employees (FTE). With the current increasing trends in importation of produce, the FDA needs to strengthen its role in this area, including better sampling and real-time microbiological testing procedures, and more inspectors to provide a greater assurance of public health protection.

Protecting the nation's food supply from bioterrorism is one of the FDA's priority initiatives for fiscal year 2007, specifically through improved prevention strategies and plans, advanced screening methods to detect microbial food contamination, and outreach to industry, State, and local stakeholders. The FDA's Food Defense Initiative is part of an interagency strategy involving the Department of Homeland Security, the USDA, and other government entities. Because of countless possibilities for intentional and accidental food contamination, the ASM supports the aggressive measures taken by the FDA to inspect, detect, and prevent unsafe foods. For example, in fiscal year 2005, the FDA conducted more than 86,000 import security reviews to identify any imported food and feed products that might be intentionally contaminated. Much of the fiscal year 2007 budget increase would expand the FDA's Food Emergency Response Network (FERN) and the Internet-based data exchange system used by health labs at all levels, the Electronic Laboratory Exchange Network (eLEXNET). FERN is a network of Federal and State laboratories designed to guarantee the analytic surge capacity to respond to any attack on the U.S. food system. By the end of fiscal year 2006, the network will incorporate 10 Federal and 10 State labs; the additional fiscal year 2007 funds will expand the network into 6 more State labs. Funds also support related basic food defense research and other surveillance linkages among Federal, State, and local responders.

Although impressive in its quantity, quality and diversity, the food supply system in the United States nonetheless remains vulnerable to accidental cases of foodborne infectious diseases. Health officials report that each year these diseases are responsible for an estimated 76 million illnesses, more than 300,000 hospitalizations, and 5,000 deaths. The USDA has estimated that each year the most common foodborne pathogens cost the U.S. economy as much as \$6 billion through direct medical costs (acute and chronic cases) and lost productivity. The ASM commends the FDA regulatory and research programs that address health risks related to foods, cosmetics, and animal feed and drugs, many of which involve microbial pathogens. Globalization of our food sources has diversified American diets, but it also greatly increases the possibilities for contamination as we eat more fresh produce, once-unfamiliar foods, and products from less-regulated import sources. Oversight of the new genetically engineered foods and recent dramatic growth in the diet supplement industry also stretches limited FDA food safety resources.

An estimated 118,000 illnesses occur each year in the United States due to eggs contaminated with *Salmonella* bacteria (*Salmonella* caused infections alone account for \$1 billion yearly in direct and indirect costs). In 2006, the FDA expects to publish its final rule to the States and the egg industry to prevent *Salmonella* contamination during production, with the intent of reducing the annual human cases by at least 33,500. The agency uses on-going surveillance of U.S. foodborne disease out-

breaks to detect any incidents with products regulated by the FDA. It also has several emergency response plans to address sudden threats to food safety, for example, post-Katrina deployment to assess stored-food sources in the Gulf Coast, and the BSE Emergency Response Plan to quickly evaluate with the USDA any report of bovine spongiform encephalopathy in US cattle. For fiscal year 2007, BSE research/detection will be one of the two highest-priority programs at the FDA's Center for Veterinary Medicine, along with reduction of antimicrobial resistance in humans now linked to antibiotics fed to food animals.

Protecting America's Health—Biomedical Frontiers

The new Critical Path to Personalized Medicine will be the FDA's top scientific policy initiative for at least the next 5 years, created "to accelerate the field of personalized, predictive, and preemptive medicine." Economic experts predict that by 2015 the United States will pay out about 20 percent of its gross domestic product on health spending. The FDA is seeking to more efficiently evaluate pre-market biomedical products. The critical path initiative is the Agency's response to recent stagnation in new product development due to problematic clinical trials or manufacturing procedures that disallow approval FDA from the FDA. By using cutting-edge molecular biology technologies, the FDA expects to modernize the medical product development process with cooperation from private industry. These technologies also will enable scientists from the FDA to evaluate and encourage superior therapies personalized or tailored to individual groups of patients, reducing the time-consuming need to approve products for broad use and paving the way to less-expensive clinical trials and more effective drugs. The new molecular-based technologies also are expected to help predict which patients would benefit from a particular therapy and which might suffer ill effects. The ASM agrees with the FDA intent to stimulate private industry use of new generations of scientific tools, in order to expedite technology transfer and to help maintain U.S. science-based competitiveness in an expanding global healthcare market.

Conclusion

The ASM strongly recommends an increased budget for the FDA, which would benefit its important programs and provided need resources for priority initiatives.

PREPARED STATEMENT OF THE AMERICAN SOCIETY OF PLANT BIOLOGISTS (ASPB)

The American Society of Plant Biologists (ASPB), a non-profit society representing nearly 6,000 plant scientists, urges the Subcommittee to support the President's fiscal year 2007 budget request of \$247.5 million for the Department of Agriculture National Research Initiative Competitive Grants Program (NRI). We urge a significant increase for the Cooperative State Research Education, and Extension Service (CSREES) and Agricultural Research Service (ARS) over the fiscal year 2006 appropriation.

Basic plant research supported by USDA-ARS and CSREES, including the NRI, provides new knowledge that leads to improved and value-added crops. This enhances economic opportunities for America's farmers. This in turn benefits rural economies and the quality of life in rural communities.

As ASPB Committee on Public Affairs Chair Roger Innes, Professor, Indiana University, noted, NRI-funded research performed by ASPB members has led to major advances in enhancing and protecting the safety of the Nation's agriculture and food supply. ASPB members are also studying how plants accumulate nutrients in order to develop crop plants with higher nutrient content and are learning how plants utilize water and soil nutrients (e.g. nitrogen and phosphorous) in an effort to develop crops that require less fertilizer, which would have major environmental, economic and health benefits.

Advances in science made possible through the NRI will enable farmers to reduce their dependency on pesticides and antibiotics and to protect the water supply, soils and fragile ecosystems, noted ASPB Committee on Public Affairs Chair Pamela Ronald, Professor, University of California, Davis.

Research sponsored by the NRI contributes to higher yields and safer foods. The NRI contributes to the talent pool of agricultural scientists in the states and Nation to better serve the needs of producers and consumers. Without grant support from the NRI, the agricultural research community in our Nation would be severely weakened, commented ASPB President Michael Thomashow, Professor, Michigan State University.

Research leading to improved energy crops could boost economies in rural and urban areas of America while reducing dependence on foreign oil. USDA and DOE reported in April how more than 33 percent of our Nation's transportation fuels

could be supplied by homegrown biofuels compared to the current two percent. This would help cut the Nation's trade deficit, while also reducing carbon emissions. We applaud the Department of Agriculture for its own and collaborative efforts with the Department of Energy and National Science Foundation to increase basic understanding of plants for enhanced production of biofuels. Advances in plant research that have helped farmers give Americans the world's lowest cost for food (as the share of personal income) could also lower fuel costs and stabilize energy supplies.

The majority of ASPB members perform research that addresses fundamental questions in plant biology. It is this basic research that leads to unexpected breakthroughs and new approaches to improving crop production. For example, the discovery of RNA interference arose from basic research on the control of gene expression and on virus resistance in plants, but is now revolutionizing research and applications in both plant and human biology. ASPB urges the Subcommittee to continue supporting USDA-sponsored world leading basic plant biology research. New enhanced crops result from research directly on crops and on simpler model plants with shared traits, such as *Arabidopsis*.

Tremendous advancements in our understanding of plant genomes have been made in the last 5 years. These advancements have greatly accelerated our ability to identify genes controlling important agricultural traits such as disease resistance, flowering time, and drought tolerance. These genomic resources have also greatly enhanced our abilities to use molecular breeding tools to develop superior crop varieties, Innes commented.

We have recommended in the past that the NRI increase funding awarded for individual research grants for both direct and indirect costs, but not decrease the total number of grants awarded. This requires substantial additional funding for the NRI program. Due to overall budget constraints, the NRI budget for existing programs has not increased at a rate to keep pace with the higher grant award levels, that are more comparable now to award levels from other research agencies. As a result, to accomplish an increase in award sizes, the NRI has had to fund fewer grants. This has caused funding rates to plummet.

If such low funding rates are maintained, it will cause many research labs to close and make it difficult for universities to justify maintaining faculty in these areas. It will also make it very difficult to attract new students and faculty into plant biology, just at a time when the opportunities for rapid advancement are unprecedented. A substantial increase as requested by the President for the NRI would lead to a higher number of awards in plant biology and other areas. This will result in more benefits in crop yields, human health and nutrition, environmental quality, clean energy production and farming practices.

Continued support for a balanced research portfolio in the Department including extramural and intramural research is needed to address the many and sometimes devastating problems farmers face in growing crops. CSREES and ARS continue to address very effectively many important research questions for American agriculture.

We deeply appreciate the Subcommittee's support for research sponsored by the Department of Agriculture. The Subcommittee's support has been essential to producing and securing the Nation's food supply.

Disclosure statement on Federal grant support

The American Society of Plant Biologists (ASPB) received Federal grants from USDA-CSREES in the amount of \$7,000 in each of fiscal years 2005 and 2006 to help coordinate the USDA-CSREES Plant and Pest Biology Stakeholders' Workshop and print the subsequent workshop report. Many associations representing growers of commodity crops; science societies representing the research community; and officials administering Federal research programs participated.

PREPARED STATEMENT OF THE CALIFORNIA INDUSTRY AND GOVERNMENT CENTRAL
CALIFORNIA OZONE STUDY COALITION

Mr. Chairman and Members of the Subcommittee: On behalf of the California Industry and Government Central California Ozone Study (CCOS) Coalition, we are pleased to submit this statement for the record in support of our fiscal year 2007 funding request of \$400,000 from the Department of Agriculture for CCOS. These funds are necessary for the State of California to address the very significant challenges it faces to comply with new national ambient air quality standards for ozone and fine particulate matter. The study design incorporates recent technical recommendations from the National Academy of Sciences (NAS) on how to most effectively comply with Federal Clean Air Act requirements.

First, we want to thank you for your past assistance in obtaining Federal funding for the Central California Ozone Study (CCOS) and California Regional PM₁₀/PM_{2.5} Air Quality Study (CRPAQS). Your support of these studies has been instrumental in improving the scientific understanding of the nature and cause of ozone and particulate matter air pollution in Central California and the Nation. Information gained from these two studies is forming the basis for the 8-hour ozone, PM_{2.5}, and regional haze State Implementation Plans (SIPs) that are due in 2007 (ozone) and 2008 (particulate matter/haze). As with California's previous SIPs, the 2007–2008 SIPs will need to be updated and refined due to the scientific complexity of our air pollution problem. Our request this year would fund the completion of CCOS to address important questions that won't be answered with results from previously funded research projects.

To date, our understanding of air pollution and the technical basis for SIPs has largely been founded on pollutant-specific studies, like CCOS. These studies are conducted over a single season or single year and have relied on modeling and analysis of selected days with high concentrations. Future SIPs will be more complex than they were in the past. The National Academy of Sciences (NAS) is now recommending a weight-of-evidence approach that will involve utilizing more broad-based, integrated methods, such as data analysis in combination with seasonal and annual photochemical modeling, to assess compliance with Federal Clean Air Act requirements. This will involve the analysis of a larger number of days and possibly an entire season. In addition, because ozone and particulate matter are formed from some of the same emissions precursors, there is a need to address both pollutants in combination, which CCOS will do.

Consistent with the new NAS recommendations, the CCOS study includes corroborative analyses with the extensive data provided by past studies, advances the state-of-science in air quality modeling, and addresses the integration of ozone and particulate pollution studies. In addition, the study will incorporate further refinements to emission inventories, address the development of observation-based analyses with sound theoretical bases, and includes the following four general components:

Performing SIP modeling analyses	2005–2011
Conducting weight-of-evidence data analyses	2006–2008
Making emission inventory improvements	2006–2010
Performing seasonal and annual modeling	2008–2011

CCOS is directed by Policy and Technical Committees consisting of representatives from Federal, State, and local governments, as well as private industry. These committees, which managed the San Joaquin Valley Ozone Study and are currently managing the California Regional Particulate Air Quality Study, are landmark examples of collaborative environmental management. The proven methods and established teamwork provide a solid foundation for CCOS.

For fiscal year 2007, our Coalition is seeking funding of \$400,000 from the Department of Agriculture/CSREES in support of CCOS. Domestic agriculture is facing increasing international competition. Costs of production and processing are becoming increasingly more critical. With the current SJV PM₁₀ SIP and the upcoming ozone and PM_{2.5} SIPs, the agricultural industry within the study area is facing many new requirements to manage and reduce their air quality impacts. The identification of scientifically validated, cost-effective options for reducing the environmental impacts of on-field and livestock related air emissions will contribute significantly to the long-term health and economic stability of local agriculture. Funding will support livestock and crop-related research that will help maintain a vital agricultural industry within the state. Research will be focused to measure baseline emissions, and to study the most economical and effective approaches for reducing the impacts of agriculture on air quality. These studies also have nationwide benefits.

The funding request is for: (1) Study of agricultural VOC emissions from pesticide application that will help answer questions relevant to farmers and regulators throughout the Nation, (2) Evaluation of baseline livestock emissions (VOCs, PM₁₀, ammonia) and effective methods to reduce these emissions, (3) Development of livestock facility emissions models as recommended by the National Academy of Sciences and (4) Improvement of emissions estimates for agricultural related diesel engines, both on-road and off-road. This includes emission factors, activity data, fleet characteristics, seasonality of emissions, and benefits of incentive programs to accelerate the introduction of cleaner engines.

Thank you very much for your consideration of our request.

PREPARED STATEMENT OF THE COALITION ON FUNDING AGRICULTURAL RESEARCH
MISSIONS (CoFARM)

The Coalition on Funding Agricultural Research Missions (CoFARM) appreciates the opportunity to submit testimony on the fiscal year 2007 appropriation for the United States Department of Agriculture (USDA). CoFARM is a coalition of 23 professional scientific organizations with 130,000 members dedicated to advancing and sustaining a balanced investment in our Nation's research portfolio.

The USDA sponsors research and education programs which contribute to solving agricultural problems of high national priority and ensuring food availability, nutrition, quality and safety, as well as a competitive agricultural economy. U.S. agriculture faces new challenges, including threats from emerging infectious diseases in plants and animals, climate change, and public concern about food safety and security. It is critical to increase the visibility and investment in agriculture research to respond to these challenges and we appreciate the Subcommittee's efforts to fund the National Research Initiative at \$181 million in fiscal year 2006 and urge the Subcommittee to support the Administration's fiscal year 2007 request of \$247.5 million for this program.

USDA National Research Initiative Competitive Grants Program

The National Research Initiative Competitive Grants Program (NRI) was established in 1991 in response to recommendations outlined in Investing in Research: A Proposal to Strengthen the Agricultural, Food and Environmental System, a 1989 report by the National Research Council's (NRC) Board on Agriculture. This publication called for increased funding of high priority research that is supported by USDA through a competitive peer-review process directed at:

- Increasing the competitiveness of U.S. agriculture.
- Improving human health and well-being through an abundant, safe, and high-quality food supply.
- Sustaining the quality and productivity of the natural resources and the environment upon which agriculture depends.

Continued interest in and support of the NRI is reflected in two subsequent NRC reports, Investing in the National Research Initiative: An Update of the Competitive Grants Program of the U.S. Department of Agriculture, published in 1994, and National Research Initiative: A Vital Competitive Grants Program in Food, Fiber, and Natural Resources Research, published in 2000.

Today, the NRI, housed within USDA's Cooperative State Research, Education, and Extension Service (CSREES), supports research on key problems of national and regional importance in biological, environmental, physical, and social sciences relevant to agriculture, food, and the environment on a peer-reviewed, competitive basis. Additionally, NRI enables USDA to develop new partnerships with other Federal agencies that advance agricultural science. Examples of such collaborations include USDA's involvement in the Microbial Genome Sequencing Program, the Maize Genome Program, the Microbial Observatories program, the Plant Feedstock Genomics for Bioenergy program, the Metabolic Engineering program, and the Climate Change Science Plan.

CoFARM Urges Congress To Support the Administration's Requested Increase or NRI in Fiscal Year 2007.—NRI's proposed increase comes from the shifting of CSREES Integrated Activities, such as food safety, pest management, and water quality, making up \$42.7 million of the proposed increase, providing a net increase of \$24 million for NRI including the additional responsibility of the Integrated Programs. CoFARM supports the Administration's effort to increase competitively awarded funding mechanisms and believes that competitive grants ensure the best science.

Past investments in agricultural research have yielded many breakthroughs in American agricultural productivity, including these few Hatch and NRI funded research success stories:

- Pennsylvania researchers are developing rapid diagnostic tests to curb avian influenza, a disease that could cripple the state's \$700 million poultry industry.
- University of Maryland researchers have created an advanced machine vision technology to detect bone fragments and foreign objects in meat.
- Researchers in Florida have tested a common fern's ability to soak up arsenic, a cancer-causing heavy metal, from contaminated soils. The market for plant-based remediation of wastes is estimated to be \$370 million in 2005.
- Entomologists and Nematologists developed a vaccine for the protection of cattle from the horn fly, a major insect pest in many parts of the world costing the North American cattle industry alone more than \$1 billion annually.

- As a result of NRI funding, a group of economists found that the competitive environment of supermarket retailers encourages patterns of adoption of food products using technologies that are new to the market.
 - Through NRI funded research, scientists developed a new assay that allows for rapid identification of *Clostridium perfringens*, which is associated with common food-borne illness, in hospital outbreaks and has resulted in improved diagnostic procedures.
 - Florida family and youth researchers have shed light on crime and violence trends in schools and evaluated prevention programs. The result has been a decline in disruptive behavior in classrooms by 40 percent over 2 years. The work is a national model for improving school safety.
- Congress must enhance funding for agricultural research to assure Americans of a safe and nutritious food supply and to provide for the next generation of research scientists.
- CoFARM appreciates the opportunity to provide written testimony and would be pleased to assist the Subcommittee as the Department of Agriculture bill is considered throughout the appropriations process.

PREPARED STATEMENT OF THE COALITION TO PROMOTE U.S. AGRICULTURAL EXPORTS

As members of the Coalition to Promote U.S. Agricultural Exports, we commend the Chairman and members of the Subcommittee for their interest and support of U.S. agriculture and express our appreciation for this opportunity to share our views.

The Coalition to Promote U.S. Agricultural Exports is an ad hoc coalition of over 100 organizations, representing farmers and ranchers, fishermen and forest product producers, cooperatives, small businesses, regional trade organizations, and the State Departments of Agriculture (see attached). We believe the United States must continue to have in place policies and programs that help maintain the ability of American agriculture to compete effectively in a global marketplace still characterized by highly subsidized foreign competition.

With the 2002 Farm Bill, Congress sought to bolster U.S. trade expansion efforts by approving an increase in funding for the Market Access Program (MAP) and the Foreign Market Development (FMD) Program. This commitment began to reverse the decline in funding for these important export programs that occurred over the previous decade. For fiscal year 2007, the Farm Bill authorizes funding for MAP at \$200 million, and FMD is authorized at \$34.5 million. The Coalition strongly urges that both programs be funded at the full authorized levels in order to carry out important market development activities. These are the same levels of funding included in the fiscal year 2006 Agriculture Appropriations bill that was signed into law last November.

Farm income and agriculture's economic well-being depend heavily on exports, which account for over 25 percent of U.S. producers' cash receipts, provide jobs for nearly one million Americans, and make a positive contribution to our nation's overall trade balance. In fiscal year 2006, U.S. agriculture exports are projected to reach \$64.5 billion which, if realized, would make it the highest export sales year ever. However, exports could be significantly higher if it were not for a combination of factors, including continued high levels of subsidized foreign competition and related steep artificial trade barriers. Agricultural imports are also forecast to be a record \$63.5 billion, continuing a 35-year upward trend that has increased at a faster pace recently. If these projections hold, then agriculture's trade surplus is only expected to be about \$1 billion, a huge decline from the roughly \$27 billion surplus of fiscal year 1996. In fiscal year 1999, the U.S. recorded its first agricultural trade deficit with the EU of \$1 billion. In fiscal year 2006, USDA forecasts that the trade deficit with the EU will grow to \$6.8 billion, the largest agriculture deficit the United States runs with any market.

America's agricultural industry is willing to continue doing its best to offset the alarming trade deficit confronting our country. However, the support provided by MAP and FMD (both green box programs) is essential to this effort.

According to USDA, the European Union (EU) spent more than \$3.25 billion on agricultural export subsidies in 2003, compared to approximately \$30 million by the United States. In other words, the United States is being outspent by more than 100 to 1 by the EU alone with regard to the use of export subsidies.

In recent years, the EU, the Cairns group, and other foreign competitors also devoted approximately \$1.2 billion on various market development activities to promote their exports of agricultural, forestry, and fishery products. A significant portion of this is carried out in the United States. Market promotion is permitted under

World Trade Organization (WTO) rules, with no limit on public or producer funding, and is not expected to be subject to any disciplines in the Doha Round negotiations. As a result, it is increasingly seen as a centerpiece of a winning strategy in the future trade battleground. Many competitor countries have announced ambitious trade goals and are shaping export strategies to target promising growth markets and bring new companies into the export arena. European countries are expanding their promotional activities in Asia, Latin America, and Eastern Europe. Canada, Australia, New Zealand, and Brazil have also budgeted significant investments in export promotion expenditures worldwide in recent years. As the EU and our other foreign competitors have made clear, they intend to continue to be aggressive in their export efforts.

Both MAP and FMD are administered on a cost-share basis with farmers and other participants required to contribute up to 50 percent of their own resources. These programs are among the few tools specifically allowed in unlimited amounts under WTO rules to help American agriculture and American workers remain competitive in a global marketplace still characterized by highly subsidized foreign competition. The over 70 U.S. agricultural groups that share in the costs of the MAP and FMD programs fully recognize the export benefits of market development activities. Since 1992, MAP participants have increased their contributions from 30 percent (30 cents for every dollar contributed by USDA) to 166 percent (\$1.66 in industry funds for every USDA dollar). For FMD, the contribution rate has risen from 76 percent to the current level of 139 percent. By any measure, such programs have been tremendously successful and extremely cost-effective in helping maintain and expand U.S. agricultural exports, protect American jobs, and strengthen farm income.

Competing in the agricultural export market carries new challenges and opportunities for U.S. agriculture. Not only is the competition becoming more intense with increased funding being brought to bear, but we also face a world where new trade agreements are being developed almost daily. The United States is also negotiating trade agreements with the goal of opening new market opportunities for U.S. agriculture. In addition, the opening of the Iraq market and the markets of other previously sanctioned countries will offer further opportunities and challenges.

For all these reasons, we want to emphasize again the need to strengthen the ability of U.S. agriculture to compete effectively in the global marketplace. American agriculture is among the most competitive industries in the world, but it cannot and should not be expected to compete alone in export markets against the treasuries of foreign governments. As a Nation, we can work to export our products, or we can export our jobs. Eliminating or reducing funding for MAP and FMD in the face of continued subsidized foreign competition, and during ongoing Doha Round trade negotiations, would put American farmers and workers at a substantial competitive disadvantage and would be nothing short of unilateral disarmament. USDA's export programs, such as MAP and FMD, are a key part of an overall trade strategy that is pro-growth, pro-trade and pro-job.

Again, as members of the Coalition to Promote U.S. Agricultural Exports, we appreciate very much this opportunity to share our views and we ask that this statement be included in the official hearing record.

PREPARED STATEMENT OF THE COLORADO RIVER BASIN SALINITY CONTROL FORUM

The Congress concluded that the Colorado River Basin Salinity Control Program (Program) should be implemented in the most cost-effective way. Realizing that agricultural on-farm strategies were some of the most cost-effective strategies, the Congress authorized a program for the United States Department of Agriculture (USDA) through amendment of the Colorado River Basin Salinity Control Act in 1984. With the enactment of the Federal Agriculture Improvement and Reform Act of 1996 (FAIRA), the Congress directed that the Program should continue to be implemented as one of the components of the Environmental Quality Incentives Program (EQIP). Since the enactment of the Farm Security and Rural Investment Act (FSRIA) in 2002, there have been, for the first time in a number of years, opportunities to adequately fund the Program within the EQIP.

The Program, as set forth in the Colorado River Basin Salinity Control Act, is to benefit Lower Basin water users hundreds of miles downstream from salt sources in the Upper Basin as the salinity of Colorado River water increases as the water flows downstream. There are very significant economic damages caused by high salt levels in this water source. Agriculturalists in the Upper Basin where the salt must be controlled, however, don't first look to downstream water quality standards but look for local benefits. These local benefits are in the form of enhanced beneficial

use and improved crop yields. They submit cost-effective proposals to the State Conservationists in Utah, Wyoming and Colorado and offer to cost share in the acquisition of new irrigation equipment. The Colorado River Basin Salinity Control Act provides that the seven Colorado River Basin States will also cost share with the Federal funds for this effort. This has brought together a remarkable partnership.

After longstanding urgings from the States and directives from the Congress, the USDA has concluded that this program is different than small watershed enhancement efforts common to the EQIP. In this case, the watershed to be considered stretches more than 1,200 miles from the river's headwater in the Rocky Mountains to the river's terminus in the Gulf of California in Mexico and receives water from numerous tributaries. The USDA has determined that this effort should receive a special funding designation and has appointed a coordinator for this multi-state effort.

In recent fiscal years, the Natural Resources Conservation Service (NRCS) has directed that over \$19 million be used for the Program. The Forum appreciates the efforts of the NRCS leadership and the support of this subcommittee. The plan for water quality control of the Colorado River was prepared by the Colorado River Basin Salinity Control Forum (Forum), adopted by the States, and approved by the United States Environmental Protection Agency (EPA). The Colorado River Basin Salinity Control Advisory Council has taken the position that the funding for the salinity control program should not be below \$20 million per year. Over the last 3 fiscal years, for the first time, funding almost reached the needed level. State and local cost-sharing is triggered by the Federal appropriation. In fiscal year 2006, it is anticipated that the States will cost share with about \$8.3 million and local agriculture producers will add another \$7.5 million. Hence, it is anticipated that in fiscal year 2005 the State and local contributions will be 45 percent of the total program cost.

Over the past few years, the NRCS has designated that about 2.5 percent of the EQIP funds be allocated to the Colorado River salinity control program. The Forum believes this is the appropriate future level of funding as long as the total EQIP funding nationwide is around \$1 billion. Funding above this level assists in offsetting pre-fiscal year 2003 funding below this level. The Basin States have cost sharing dollars available to participate in funding on-farm salinity control efforts. The agricultural producers in the Upper Basin are waiting for their applications to be considered so that they might improve their irrigation equipment and also cost share in the Program.

OVERVIEW

The Program was authorized by the Congress in 1974. The Title I portion of the Colorado River Basin Salinity Control Act responded to commitments that the United States made, through a Minute of the International Boundary and Water Commission, to Mexico specific to the quality of water being delivered to Mexico below Imperial Dam. Title II of the Act established a program to respond to salinity control needs of Colorado River water users in the United States and to comply with the mandates of the then newly-enacted Clean Water Act. This testimony is in support of funding for the Title II program.

After a decade of investigative and implementation efforts, the Basin States concluded that the Salinity Control Act needed to be amended. The Congress agreed and revised the Act in 1984. That revision, while keeping the Department of the Interior as lead coordinator for Colorado River Basin salinity control efforts, also gave new salinity control responsibilities to the USDA. The Congress has charged the Administration with implementing the most cost-effective program practicable (measured in dollars per ton of salt controlled). It has been determined that the agricultural efforts are some of the most cost-effective opportunities.

Since Congressional mandates of nearly 3 decades ago, much has been learned about the impact of salts in the Colorado River system. The Bureau of Reclamation (Reclamation) has conducted studies on the economic impact of these salts. Reclamation recognizes that the damages to United States' water users alone are hundreds of millions of dollars per year.

The Forum is composed of gubernatorial appointees from Arizona, California, Colorado, Nevada, New Mexico, Utah and Wyoming. The Forum has become the seven-state coordinating body for interfacing with Federal agencies and the Congress in support of the implementation of the Salinity Control Program. In close cooperation with the EPA and pursuant to requirements of the Clean Water Act, every 3 years the Forum prepares a formal report evaluating the salinity of the Colorado River, its anticipated future salinity, and the program elements necessary to keep the salinity concentrations (measured in Total Dissolved Solids—TDS) at or below the lev-

els measured in the river system in 1972 at Imperial Dam, and below Parker and Hoover Dams.

In setting water quality standards for the Colorado River system, the salinity concentrations at these three locations in 1972 have been identified as the numeric criteria. The plan necessary for controlling salinity and reducing downstream damages has been captioned the "Plan of Implementation." The 2005 Review of water quality standards includes an updated Plan of Implementation. In order to eliminate the shortfall in salinity control resulting from inadequate Federal funding for a number of years from the USDA, the Forum has determined that implementation of the Program needs to be accelerated. The level of appropriation requested in this testimony is in keeping with the agreed upon plan. If adequate funds are not appropriated, significant damages from the higher salt concentrations in the water will be more widespread in the United States and Mexico.

Concentrations of salts in the river cause \$330 million in quantified damages and significantly more in unquantified damages in the United States and result in poorer quality water being delivered by the United States to Mexico. Damages occur from:

- a reduction in the yield of salt sensitive crops and increased water use for leaching in the agricultural sector,
- a reduction in the useful life of galvanized water pipe systems, water heaters, faucets, garbage disposals, clothes washers, and dishwashers, and increased use of bottled water and water softeners in the household sector,
- an increase in the use of water for cooling, and the cost of water softening, and a decrease in equipment service life in the commercial sector,
- an increase in the use of water and the cost of water treatment, and an increase in sewer fees in the industrial sector,
- a decrease in the life of treatment facilities and pipelines in the utility sector,
- difficulty in meeting wastewater discharge requirements to comply with National Pollutant Discharge Elimination System permit terms and conditions, and an increase in desalination and brine disposal costs due to accumulation of salts in groundwater basins, and
- increased use of imported water for leaching and cost of desalination and brine disposal for recycled water.

For every 30 mg/L increase in salinity concentrations, there is \$75 million in additional damages in the United States. The Forum, therefore, believes implementation of the USDA program needs to be funded at 2.5 percent of the total EQIP funding.

Although the Program thus far has been able to implement salinity control measures that comply with the approved plan, recent drought years have caused salinity levels to rise in the river. Predictions are that this will be the trend for the next several years. This places an added urgency for acceleration of the implementation of the Program.

STATE COST-SHARING AND TECHNICAL ASSISTANCE

The authorized cost sharing by the Basin States, as provided by FAIRA, was at first difficult to implement as attorneys for the USDA concluded that the Basin States were authorized to cost share in the effort, but the Congress had not given the USDA authority to receive the Basin States' funds. After almost a year of exploring every possible solution as to how the cost sharing was to occur, the States, in agreement with Reclamation, State officials in Utah, Colorado and Wyoming and with NRCS State Conservationists in Utah, Colorado and Wyoming, agreed upon a program parallel to the salinity control activities provided by the EQIP wherein the States' cost sharing funds are being contributed and used. We are now several years into that program and, at this moment in time, this solution to how cost sharing can be implemented appears to be satisfactory.

With respect to the States' cost sharing funds, the Basin States felt that it was most essential that a portion of the Program be associated with technical assistance and education activities in the field. Without this necessary support, there is no advanced planning, proposals are not well prepared, assertions in the proposals cannot be verified, implementation of contracts cannot be observed, and valuable partnering and education efforts cannot occur. Recognizing these values, the "parallel" State cost sharing program expends 40 percent of the funds available on these needed support activities made possible by contracts with the NRCS. Initially, it was acknowledged that the Federal portion of the Program funded through EQIP was starved with respect to needed technical assistance and education support. The Forum is encouraged with a recent Administration acknowledgment that technical assistance must be better funded.

PREPARED STATEMENT OF THE COUNCIL ON FOOD, AGRICULTURAL, & RESOURCE ECONOMICS (C-FARE) AND THE CONSORTIUM OF SOCIAL SCIENCE ASSOCIATIONS (COSSA)

Dear Chairman Bennett, Ranking Member Kohl and Members of the Subcommittee: The Council on Food, Agricultural, and Resource Economics (C-FARE) and the Consortium of Social Science Associations (COSSA) appreciate the opportunity to submit testimony on the fiscal year 2007 appropriation for the United States Department of Agriculture. C-FARE is a non-profit, non-partisan organization dedicated to strengthening the presence of the agricultural, natural resources, and applied economics profession to matters of science policy and Federal budget determination, and we represent approximately 3,500 economists nationwide. COSSA is an advocacy organization for the social and behavioral sciences supported by more than 100 professional associations, scientific societies, universities, and research institutes.

Our organizations understand the challenges the Senate Agriculture Appropriations Subcommittee faces given the tight fiscal year 2007 agriculture budget. We also recognize that the Agriculture Appropriations bill has many valuable and necessary components, and we applaud the efforts of the Subcommittee to fund mission-critical research. Below are listed recommendations for the fiscal year 2007 appropriations cycle.

USDA COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE (CSREES)

National Research Initiative

C-FARE and COSSA endorse funding for the National Research Initiative Competitive Grants Program (NRI) at the President's proposed level of \$247.5 million. The NRI encourages high quality research that is conducted through a peer reviewed format. In particular, the research issues addressed by Markets and Trade and Rural Development are diverse and multi-faceted. Social Science research also enhances ideas and technologies from other fields of science and research which adds value to their role in the NRI.

C-FARE and COSSA requests that any new monies appropriated for the NRI, as requested by the administration, allow the Secretary the discretion to apply up to 30 percent towards carrying out the NRI integrated research, extension and education competitive grants program.

Our organizations applaud the administration's proposal to eliminate the indirect cost cap on the NRI, set at 20 percent for fiscal year 2005, which will broaden its appeal by putting the NRI on equal footing with other Federal competitive grants programs.

Social Science research is highly valued by USDA and much of what our scientists offer can help meet the strategic goals of CSREES. For example, social science research meets CSREES strategic goal number 1, "Enhance Economic Opportunities for Agricultural Producers" by providing science-based information, knowledge, and education to help farmers and ranchers understand risk management, and the long-term impacts of trade barriers. Research by our members also meets CSREES goal number 2, "Support Increased Economic Opportunities and Improved Quality of Life in Rural America," by providing information to help inform decisions affecting the quality of life in rural America. Therefore, we request that the Committee encourage CSREES to fund the social science research components of the NRI at a level sufficient to allowing scientists to address these unmet research needs. Within the last year, USDA changed funding for these core congressionally-mandated programs to every other year, rather than on a yearly basis.

Formula Funding.—Cuts to and proposed elimination of CSREES' formula-funded research programs can be detrimental to the entire USDA research portfolio. Formula Funds support the continuing costs of research activities while providing for long-term commitments to research that is often essential. Because of their timing and potential regional and intra-state impacts, much of the infrastructure needed to conduct competitively award research would be compromised if formula funds were cut. This would mean a huge and potentially damaging loss of research data nationwide. A balance of funding mechanisms, including competitive awards and formula funding, is essential if the capacity of the United States to conduct agricultural research, both basic and applied, is to be maintained and the country is to continue to excel in areas such as agricultural production and expanding the quality of rural life.

USDA Economic Research Service (ERS)

C-FARE and COSSA support the President's proposed fiscal year 2007 funding level for the Economic Research Service (ERS) initiatives. The President's budget in-

cludes \$5.0 million towards the Agricultural and Rural Development Information System (ARDIS) to help ERS establish and maintain data collection on the demographic, economic, government program participation, and other household well-being information from samples of non-farm rural households and rural-based farm households, over time. The scientists our organizations represent need exactly such new and valuable data for a variety of purposes, including estimating impacts of farm policy changes. Simultaneously collecting the same data and information from panels of farm and non-farm households in the same rural area makes it possible to determine just how farm and non-farm rural households are different from or similar to one another, and provides a far more definitive than currently available basis for judging whether and to what extent farm policy changes spill over into the rural economy. We urge full funding of this initiative to assure that agricultural and rural economic analysts can reap the minimum necessary value added that will, in turn, enhance their contributions to a sound farm policy and robust rural economies throughout the Nation. We also support the President's proposal of \$1.6 million for the ERS Consumer Data and Information System at ERS. The funding will include a comprehensive food data system that will be used to obtain food away from home information. C-FARE and COSSA believe funding this program is an important contribution to the government wide effort to fight obesity.

USDA National Agricultural Statistics Service (NASS)

C-FARE and COSSA recommend supporting the President's priority activities for NASS. These include a net increase of \$14 million for funding for agricultural estimates, Census of Agriculture, and pay costs. Of the proposed increase, it is necessary to support \$3.9 million for Agricultural Estimates Restoration and Modernization. This initiative will continue NASS' efforts to restore quality and modernization of the basic USDA agricultural estimates program that supports the U.S. agricultural market system. The increase will also include \$7.3 million for the 2007 Census of Agriculture. The census data are relied upon to measure trends and new developments in the agricultural sector.

USDA Agriculture Marketing Service (AMS)

C-FARE and COSSA encourage Congress to continue supporting USDA's AMS at a level that will allow them to continue offering the high value programs they provide. As economists and social scientists we appreciate that the AMS programs promote a competitive and efficient marketplace. AMS services such as standardization, grading, market news, commodity procurement, and other market-facilitating activities benefit both consumers and producers. For the research community specifically, AMS market news services provide in-depth data regarding a wide range of commodities and modes of transportation; such basic information is invaluable for analysis. AMS also supports research on marketing and transportation issues through cooperative agreements and through the Federal-State Marketing Improvement Program.

USDA Grain Inspection, Packers, and Stockyards Administration (GIPSA)

C-FARE and COSSA also value the vital work of GIPSA to help USDA enhance economic opportunities for agricultural producers by promoting fair and competitive trade practices and financial integrity in the grain, livestock, meat and poultry industries. GIPSA reports provide information that aid in the development of industry standards and policy decision-making. Several of these reports are used in the research conducted by social scientists. In particular, the Packers and Stockyards Statistical Report provides researchers with data on industry concentration, plant size, and other industry economic information. The data helps social science researchers study important social and economic issues, including concentration in the meat packing industry. We encourage Congress to continue providing appropriate support for GIPSA and their important programs.

USDA Natural Resources Conservation Service (NRCS)

Our organizations also support sustained investment in our Nation's natural resources and environment. We applaud USDA NRCS for promoting conservation and sustainable use of natural resources on the Nation's private lands. NRCS helps provide science-based knowledge to improve the management of forests, rangelands, soil, air and water resources. Social science researchers use this vital information to develop policy recommendations that impact the future of our agricultural sector, as well as life in rural America.

Conclusion

Recent security threats facing America require new and expanded agricultural research to protect our Nation's forests, water supplies, food processing and distribu-

tion network, and rural communities and insure the future security, safety and sustainability of America's food and fiber system. In order to address these challenges and maintain our position in an increasingly competitive world, we must continue to support research programs such as the NRI and formula funding, and information systems such as those provided by ERS.

Thank you for the opportunity to present our recommendations. As you know, past investments in agricultural research have yielded many breakthroughs in American agricultural productivity. If you have any questions or concerns regarding our priorities please do not hesitate to contact us.

C-FARE DISCLOSURE OF GOVERNMENT CONTRACTS AND GRANTS 2004–2006

Agency	Year	Background
USDA CSREES	2005	\$10,000 to help support C-FARE's Educational Outreach Activities by funding a 2004 conference on "Partnering for Agricultural Research." The conference invited in scientists from universities, government and private sector to discuss ways to partner for enhanced research.
USDA ERS	2004	\$25,000 to help support C-FARE's Educational Outreach Activities by funding a 2004 conference on "Partnering for Agricultural Research." The conference invited in scientists from universities, government and private sector to discuss ways to partner for enhanced research. Other portions of the funding were dedicated to other education activities with academic scientists.
USDA ERS	2005	\$25,000 to help support C-FARE's Educational Outreach Activities by helping provide funding for C-FARE's intern briefings, and other educational seminars.
USDA NASS	2004	\$7,500 to help support C-FARE's Educational Outreach Activities by funding a 2004 conference on "Partnering for Agricultural Research." The conference invited in scientists from universities, government and private sector to discuss ways to partner for enhanced research.
USDA NASS	2005	\$7,500 in funding helped provide educational seminars to college students about careers in Washington, DC and other educational seminars
EPA	2004	\$5,000 to help support a 2003 conference on how to use various database systems.

PREPARED STATEMENT OF DEFENDERS OF WILDLIFE

On behalf of our members and supporters, Defenders of Wildlife appreciates the opportunity to comment upon the fiscal year 2007 budget for the U.S. Department of Agriculture. Defenders of Wildlife is a national nonprofit conservation organization committed to preserving the integrity and diversity of natural ecosystems, preventing the decline of native species, and restoration of threatened habitats and wildlife populations.

Defenders of Wildlife has concerns about the administration's fiscal year 2007 budget and we strongly oppose a number of changes the Bush Administration's proposed fiscal year 2007 budget would make to Farm Bill conservation programs. While we applaud the administration's recommendations to fully fund the Wetlands Reserve Program, the Bush Administration's proposal continues to attempt to rewrite the Farm Bill to the great detriment of the suite of USDA voluntary conservation programs. We make recommendations in the following priority areas. 2002 Farm Bill Conservation Title Programs

Resource conservation programs within the Farm Security and Rural Investment Act of 2002 (Public Law 107-171) (Farm Bill) provide an integrated approach, through incentives and technical assistance, to both production and stewardship of farm and ranch lands and the environment. Further, these programs have been particularly valuable in providing resources for addressing threatened and endangered species conservation issues. The 2002 Farm Bill tried to achieve a balance between farm commodity provisions and critical conservation, nutrition, research and rural development programs that reach far more Americans than the traditional commodity programs. But, in every year since the passage of the Farm Bill, conservation programs continue to be funded well under authorized levels. This comes at the

expense of meaningful benefits to both sustainable farmers and ranchers and the environment. The conservation title specifically has borne the brunt of the cuts.

Since the passage of the 2002 farm bill, congressional and administrative actions have shortchanged promised conservation title funding for programs administered by the National Resource Conservation Service (NRCS) by \$1.444 billion over fiscal year 2003 through fiscal year 2006. The President's proposed budget for 2007 unfortunately continues this trend. We are pleased that the President's budget this year again contains a promising proposal to limit environmentally harmful agricultural commodity subsidies by capping payments at \$250,000 per farmer, and for the first time since he came to office, a request to fully fund the Wetlands Reserve Program. Unfortunately, his request still cuts critical conservation programs not just from the mandated Farm Bill funding, but actually below even the fiscal year 2006 level.

Thus, Defenders of Wildlife urges Congress to restore balance to the Farm Bill and to not shortchange progressive voluntary conservation programs. National Farm Bill legislation has a profound impact on native species and wildlife habitat conservation choices of individual private landowners who practice crop, livestock, and forestry activities. Almost 60 percent of at risk species (as defined by The Nature Conservancy) are on private or state lands. Nearly 40 percent of plant and animal species listed as threatened or endangered are found only on private or state lands. Seventy percent of the land in the United States is held in private ownership in the form of range, forestry, or agricultural use. As of 1995, nearly 84 percent of the plants and animals listed as endangered or threatened were listed in part due to agricultural activities. Specifically, we urge Congress to restore balance by protecting funding allocations for the following programs

The Conservation Security Program

The Bush Administration's proposed fiscal year 2007 budget continues to cripple the landmark Conservation Security Program (CSP). CSP is an innovative and important initiative that is meant to support farmers and ranchers who implement and maintain effective stewardship practices on their working farm and ranch lands. However, every year since passage it has been a target for cuts thus limiting its ability to be implemented as intended. Furthermore, the baseline for CSP was dramatically slashed by \$1 billion in the fiscal year 2006 budget reconciliation. Yet, the administration's fiscal year 2007 budget cuts CSP by a further 8 percent. As originally enacted, CSP should have received \$846 million in 2007, compared to the \$342 million requested in the President's 2007 budget.

The President's fiscal year 2007 budget reduces the CSP substantially below the original and intended level authorized in the Farm Bill, but with the reduced baseline it amounts to an 8 percent decrease. Moreover, because a significant portion of fiscal year 2006 funding will go to fund the continuation of contracts signed in 2004 and 2005, the proposed funding level will severely curtail the number of watersheds where the program can be offered to well below the intent of the 2002 Farm Bill. Current funding levels have permitted enrollment of only about 10 percent of the Nation's watersheds in the first 2 years of program implementation. In the spring of 2006 the CSP sign-up was cut in half because there was not enough money. Many farmers who had been told that their watershed would be funded under CSP were suddenly told there was no money. This inconsistency turns away many good stewards of the land.

The Conservation Security Program offers long term benefits for continued management of lands to promote environmental health. CSP is structured to reward farmers who have already invested in environmental stewardship, and to encourage them to go even farther to implement stewardship practices on their working lands through the enhancement payment structure. CSP is an essential part of the USDA portfolio of conservation programs to protect our water, soil, and wildlife resources. In order to achieve its promise of continuous income support to all of the country's best stewards, the program must be available to all producers nationwide, and must be implemented on a schedule that permits farmers to re-enroll when their contracts are up. Thus Defenders urges Congress to consider the benefits that these programs can provide to sustainable farmers in all types of agriculture and in all regions of the country, and appropriate at authorized levels. At this point, perpetual cuts have the effect of rewriting the Farm Bill and changing CSP from the first-ever working lands conservation entitlement program envisioned by Congress, to a program with limited enrollment, preferential bidding, and waiting lists.

The Wildlife Habitat Incentives Program

In the President's fiscal year 2007 budget the Wildlife Habitat Incentives Program (WHIP) gets slashed by 35 percent—\$30 million less than fiscal year 2007 authorized level mandated in the 2002 Farm Bill and \$5 million less than the administra-

tion requested last year. WHIP provides cost sharing and technical assistance for the development of wildlife habitat on private lands. Though small in size, the program provides significant benefits for wildlife and wildlife habitat and provides proactive solutions to dealing with endangered habitat and species issues before they become critical. More than 8,400 projects affecting some 1.4 million acres have been approved under WHIP through fiscal year 2004 (source: <http://www.nrcs.usda.gov/programs/farmbill/2002/pdf/WHIPFct.pdf>, fiscal year 2005 data still unavailable). There is demand for more as backlog statistics from NRCS show us: nationwide, according to figures through fiscal year 2004 (fiscal year 2005 data unavailable), over 3,000 qualified applicants were turned away. The value of the backlogged applications that could be going to these stewards totals \$10 million.

Defenders urges Congress to restore full funding to this program and protect the allocation of this program to continue to provide meaningful benefits to sustainable farmers and ranchers and to wildlife.

Other Important Conservation Programs in the Farm Bill

Several other critical programs, that are part of the forward thinking conservation initiatives in the Farm Bill, will also be significantly cut, which in turn will undermine progressive efforts by farmers and ranchers to steward land, conserve soil and water, and provide habitat for wildlife. The Environmental Quality Incentives Program (EQIP), which provides technical assistance, cost-share/incentive funding to assist crop and livestock producers with environmental and conservation improvements on their farms and ranches, is cut by 21 percent—and is \$17 million below 2006 funding levels. And the Farm and Ranch Land Protection Program (FRPP), which keeps working farms and ranches in production and puts cash in the pockets of farmers and ranchers, is slashed by a whopping 48 percent—\$23.5 million below the fiscal year 2006 level. Defenders again urges Congress to protect the restore funding and protect the allocation for these programs, as well as the Conservation Reserve program. Farm Bill conservation programs should be appropriated at authorized levels as intended by the 2002 Farm Bill. Overall, the President's request cuts 21 percent of the Farm Bill's mandatory fiscal year 2007 funding for NRCS programs.

This pattern has real consequences both for environmental quality and for the farmers and ranchers who need assistance. In 2004 alone, nearly 152,000 qualified applications for farm conservation programs had to be turned away—an astonishing unmet conservation need of almost \$4.5 billion! Defenders again urges Congress to protect the restore funding and protect the allocation for these programs.

Farm Bill Energy Title Programs

Inclusion of an Energy Title in the 2002 Farm Bill was a huge bipartisan victory for renewable energy and for rural America. However, the program was allocated \$23 million per year in mandatory funding for fiscal years 2003–2007. The President's fiscal year 20067 budget request provides only \$10 million in discretionary funding. This title provides programs to spur the growth of renewable energy within the agriculture sector, an immense potential energy source. Sec. 9006 is the only provision specific to renewable energy project development within the Farm Bill. It provides grants, and eventually loans and loan guarantees, to farmers, ranchers, and rural small businesses for the development of renewable energy projects and energy efficiency improvements. The program is designed to help farmers develop much needed new income streams from renewable energy generation, including wind, biomass, geothermal, hydrogen and solar energy, as well as helping to meet the Nation's critical energy needs in an environmentally sustainable way, and generate economic development in every region of the country. Defenders urges Congress to restore full funding to the Renewable energy program as mandated by the Farm Bill.

USDA Invasive Species Prevention and Rapid Response

Defenders of Wildlife is pleased that the President's budget for fiscal year 2007 includes a \$28 million increase over 2006 for the Animal and Plant Health and Inspection Service's Pest and Disease exclusion program (page 83). Many of the pests, weeds, and diseases that threaten livestock, crops and rangelands area are also problematic for wildlife and wildlife habitats, and exclusion of these pests is the safest and most cost-effective way to prevent these impacts. Unfortunately, this foresightedness does not appear to extend to other areas of the Agriculture budget. For instance: while the Agriculture Research Service budget text promises "increased emphasis" on diseases, crop pests and invasive species, many of the line items related to these functions have been substantially decreased from 2006 levels: Food safety by \$9 million, Livestock Protection by \$7 million, Crop Protection by \$32 million, and Environmental Stewardship by \$51 million (page 74–75). We note that the

Homeland Security line item receives a \$45 million increase; however, the vast majority of damaging organisms that have entered the United States have arrived accidentally, or were deliberately imported for perceived benefit, not through malicious intent. The Forest Service's Research and Development program also promises "increased funding" for "invasive species research vital to a rapid management response" but overall funding for Forest and Rangeland Research is decreased by \$56 million (pages 181–182). Furthermore, State and Private Forestry programs, which provide technical and financial assistance to states for invasive species issues that impact forest health, is also cut by \$39 million from 2006 levels (page 182).

Given the serious economic and ecological problems associated with invasive species, which are particularly prevalent in agriculture, rangelands and forests, we urge Congress to fund all of these programs at their 2006 levels or higher.

Animal and Plant Health and Inspection Service and Wildlife Services

Livestock Protection

The Wildlife Services (WS) program, housed under the Animal and Plant Health and Inspection Service (APHIS), continues to spend a disproportionate amount of its annual allocation for livestock protection activities, which translates generally into the killing of predators primarily on behalf of sheep and cattle producers. But according to a recent study by the Wildlife Conservation Society (WCS), decades of U.S. government-subsidized predator control has failed to prevent a long-term decline in the sheep industry. The study says that more than 80 years of federally subsidized predator control with a total investment of more than \$1.6 billion have not been able to stave off an 85 percent decline in the sheep industry since its peak of 56.2 million animals in 1942.

According to the study, predation by coyotes is often cited as the primary cause of the decline. However, 80 years of historical data reveal that a variety of market trends ranging from fluctuating hay prices and rising wages for livestock workers, to the drop in wholesale prices of lamb and wool, are the real culprits behind the industry's drop-off. According to the study's author, "If predation losses are responsible for the decline in the U.S. sheep industry and Federal predator control has been effective at reducing these losses, then we'd expect to see a strong, positive relationship between efforts to control predators and trends in sheep numbers and that is just not the case." While predation is not the industry's primary threat, it is one of the few factors over which ranchers feel they have some degree of control. In fiscal year 2004 alone, Federal agents killed more than 80,000 mammalian carnivores, including 75,674 coyotes, 359 mountain lions and 397 black bears. The study suggests that Federal funding for predator control in the sheep industry should be re-evaluated given the program's failure to prevent the industry's decline. We support such a reevaluation and urge the Committee to direct Wildlife Services to modernize its livestock protection program to focus on assisting ranchers by providing them with a range of more effective means of reducing predation, many of which have been developed by the program's research facility, the National Wildlife Research Center, rather than concentrating on killing predators. Specifically, Defenders is concerned with the consistent lack of attention paid to repeated Congressional directives to the Wildlife Services program that deal with modernizing the field activities of its staff. Defenders recommends that Congress ask for a report on Wildlife Services' documenting its compliance with the directives dealing with the increased use of non-lethal methods. Defenders of Wildlife requests also that the Committee's report include the following language: "The Committee expects that Wildlife Services will make use of the non-lethal methods developed by the National Wildlife Research Center and will make non-lethal controls as the method of choice and resort to lethal means only as a last resort."

Defenders of Wildlife appreciates this opportunity to provide testimony on the fiscal year 2007 USDA budget. Thank you for your consideration of these comments.

PREPARED STATEMENT OF THE DUCHESNE COUNTY WATER CONSERVANCY DISTRICT

The Duchesne County Water Conservancy District is requesting your support for continued funding for the Colorado River Salinity Control Title II Program. This program has greatly assisted in removal of many tons of salt from the Colorado River, but there is still a great deal of work to be completed that will require an adequate level of funding. The seven Colorado River Basin States, as well as Mexico, have greatly benefitted from this important program. For many years high concentrations of salt in the Colorado River had severely damaged agricultural production in the West as well as resulting in poor quality water being delivered to Mexico.

Great strides have been made in improving water quality in the Colorado River since the inception of this program but we strongly feel that there is still a great deal to be done. We understand that the Colorado River Basin Salinity Control Forum is requesting \$17,500,000 in funds be appropriated for this program for fiscal year 2007 and we would like to add our full support to that funding level request. We would also like to express support for the continued funding of the Natural Resource Conservation Service program, the Environmental Quality Incentive Program (EQIP) which works closely with the Salinity Program. It is very important that adequate funding levels be maintained for it also.

We request the Subcommittee's assistance to ensure that the Colorado River Salinity Control Title II program and EQIP program are provided with continued adequate funding.

PREPARED STATEMENT OF FLORIDA STATE UNIVERSITY

Mr. Chairman, I would like to thank you and the Members of the Subcommittee for this opportunity to present testimony before this Committee. I would like to take a moment to briefly acquaint you with Florida State University.

Located in Tallahassee, Florida's capitol, FSU is a comprehensive Research I university with a rapidly growing research base. The University serves as a center for advanced graduate and professional studies, exemplary research, and top-quality undergraduate programs. Faculty members at FSU maintain a strong commitment to quality in teaching, to performance of research and creative activities, and have a strong commitment to public service. Among the current or former faculty are numerous recipients of national and international honors including Nobel laureates, Pulitzer Prize winners, and several members of the National Academy of Sciences. Our scientists and engineers do excellent research, have strong interdisciplinary interests, and often work closely with industrial partners in the commercialization of the results of their research. Florida State University had over \$182 million this past year in research awards.

Florida State University attracts students from every state in the nation and more than 100 foreign countries. The University is committed to high admission standards that ensure quality in its student body, which currently includes National Merit and National Achievement Scholars, as well as students with superior creative talent. We consistently rank in the top 25 among U.S. colleges and universities in attracting National Merit Scholars to our campus.

At Florida State University, we are very proud of our successes as well as our emerging reputation as one of the nation's top public research universities.

Mr. Chairman, let me summarize our primary interests today. The Southeast Climate Consortium (SECC), which consists of Florida State University, the University of Florida, the University of Miami, the University of Georgia, Auburn University, and University of Alabama at Huntsville, has been at the forefront of research and extension for the applications of climate predictions to risk reduction for agriculture. With support from NOAA and USDA, the SECC has developed new methods to predict the consequences of climate variability for agricultural crops, forests, and water resources in the southeast United States. In recent real-life tests, these methods have been applied to the problems that farmers raising specialty crops face arising from variable rainfall, temperature, and wild fires. By the use of these methods, these initial challenges have been successfully met.

In the SECC, Florida State University will provide the climate forecasts and risk reduction methodology. The University of Florida and University of Georgia will translate this climate information into risks associated environmental impacts on agriculture and, with Auburn University, will work with Extension Services to provide information to the agricultural community. The University of Miami will provide economic modeling of agricultural systems. Together UM, UF, and the University of Alabama-Huntsville are developing new tools to help minimize climate risks to water quality and quantity, especially for agriculture. FSU, on behalf of the SECC, seeks \$4,500,000 in fiscal year 2007 for this activity. Utilization of these tools and their application to agricultural problems in this project has the strong support of extension managers.

The new tasks for fiscal year 2007 are to develop flood forecasting methods to help farmers and producers plan for reducing risks of economic losses and environmental damage; to develop partnerships and methods for incorporating climate forecasts and other climate information into agricultural and water policy decisions, and to begin development of a prototype decision support system for the application of climate forecasts to water resource management, especially for agricultural water use.

Mr. Chairman, we believe this research is vitally important to our country and would appreciate your support.

PREPARED STATEMENT OF FOOD & WATER WATCH

My name is Wenonah Hauter. I am the Executive Director of Food & Water Watch, a non-profit consumer organization. We welcome this opportunity to present our views on the fiscal year 2007 Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Bill.

USDA—FOOD SAFETY AND INSPECTION SERVICE (FSIS)

The Food Safety and Inspection Service (FSIS) is proposing a shift to a risk-based inspection system. We have the following concerns about this proposal:

The Agency lacks the statutory authority to execute a risk-based inspection scheme that would require less than daily inspection. According to both the Federal Meat Inspection Act (21 U.S.C. 603) and the Poultry Inspection Act (21 U.S.C. 455), the United States Department of Agriculture is required to provide continuous inspection in all establishments that produce meat and poultry products that enter the food supply.

Furthermore, the FSIS' own glossary defines continuous inspection as:

Continuous Inspection.—USDA's meat and poultry inspection system is often called "continuous" because no animal destined for human food may be slaughtered or dressed unless an inspector is present to examine it before slaughter (antemortem inspection), and its carcass and parts after slaughter (postmortem inspection). In processing plants, as opposed to slaughter plants, inspectors need not be present at all times, but they do visit at least once daily. Processing inspection is also considered continuous.¹

Risk-based inspection needs to have a reliable database upon which to make judgments about which meat and poultry plants meet or exceed performance standards. At the present time, there are problems with the data collection within the Food Safety and Inspection Service. The USDA Inspector General, in a November 2004 audit report, stated the following about the Performance Based Inspection System (PBIS) database:

Due to the lack of controls noted during our audit, FSIS cannot be assured that PBIS data is complete, accurate, and reliable. As a result, FSIS management may not have the information it needs to effectively manage its inspection activities. Without effective controls over data integrity, the PBIS system may be an unreliable repository that gives FSIS management a false sense that inspection activities are adequately carried out and sanitation of plant operations is accurately reported.²

The Hazard Analysis Critical Control Points (HACCP) inspection system still has problems. The authority of inspectors to prevent adulterated products from entering the food supply has been severely hampered. Company HACCP plans do not require pre-approval from FSIS before they are implemented. Under HACCP, inspectors have been relegated to verifying whether company-written HACCP plans are being followed. Even when FSIS issues directives to companies to reassess their HACCP plans to take into account new food safety policies (e.g., the 2002 directive requiring companies to deal with E. coli 0157:H7 as an adulterant likely to occur in beef processing), companies often take long periods of time to implement the new policy.

The HACCP-Based Inspection Models Project (HIMP) in poultry slaughter still has fewer than two dozen plants participating in the program. The Government Accountability Office issued the last comprehensive analysis of this project in December 2001 and pointed out a number of serious problems.³ Inspectors assigned to these plants report that they are not able to perform food safety functions because they are assigned to stationary positions on the slaughter lines (e.g., they are not able to look inside the cavity of poultry carcasses where there may be contamination). Furthermore, defects that are considered to be "other consumer protection," such as blemishes, scabs, tumors, feathers, and bruises, and would not pass muster in processing plants using conventional inspection techniques are being permitted to enter commerce under the HIMP system. We do not believe that they Agency is prepared to extend this inspection model to the entire poultry industry at this time. There should be a thorough examination of the HIMP project before it is expanded.

Because there has not been a full evaluation of HIMP recently, we filed a Freedom of Information Act request on December 14, 2005 requesting certain documents

¹ See <http://www.fsis.usda.gov/Help/glossary-C/index.asp>.

² See <http://www.usda.gov/oig/webdocs/2451-01-FM.pdf>.

³ See <http://gao.gov/new.items/d0259.pdff>.

so that we could conduct our own study. FSIS responded that they wanted us to pay more than \$10,000 for the information. We have since scaled back the request, and yet they are still requesting the exorbitant sum of \$2,858 for the records. We are a non-profit consumer group and we do have access to such large sums of money. Furthermore, we believe that this information should be available at no cost to requesters since the agency is proposing to expand this pilot project that will radically change our inspection system in slaughter establishments. We believe that Congress should request full disclosure of this information.

In January 2006, the USDA Inspector General released an audit report entitled, "Food Safety and Inspection Service Assessment of the Equivalence of the Canadian Inspection System" (Report No. 24601-05-Hy). The report indicates that Canada was continually exporting meat and poultry products to the United States that had been subject to less than daily inspection—in violation of U.S. standards. While those responsible for enforcing our equivalency agreements at FSIS recommended taking disciplinary action against Canada for their repeated violations, they were overruled by the Secretary in 2004. We find this most troubling. FSIS has repeatedly testified before Congress that countries that wish to export their meat and poultry products to the United States must maintain inspection standards that are identical to those for domestic producers. Yet, in this instance, USDA has chosen to look the other way.

While Canada has agreed to institute daily inspection in those establishments that export to the United States, we have learned that FSIS has been in discussions with the Canadian Food Inspection Agency (CFIA) to establish a pilot project with a subset of Canadian plants that would be able to export products that have been subject to less than daily inspection. This pilot program is being created without the benefit of congressional input or discussion through rulemaking. We believe that instituting such a pilot project would be a violation of the Federal Meat Inspection Act (FMIA) and the Federal Poultry Products Inspection Act (FPPIA) and it should be stopped before it is implemented.

We have also learned that Australia is in the process of considering a "trial" of its controversial Meat Safety Enhancement Program (MSEP) for a beef processor that would like to export its products to the United States. MSEP is a privatized inspection system for beef for which there is no comparable system here in the United States. MSEP trials were last conducted in 1999, but were stopped since the inspection system raised consumer concerns both here in the United States and in Europe. We can only surmise that someone at USDA has signaled to Australia that we would accept beef products produced under a privatized inspection system.

We view both the Canadian pilot project and the Australian MSEP trial as vehicles by the current USDA policymakers to institute backdoor changes to our inspection system through our international trading partners. Congress has already had to step in to warn USDA on changing the programs authorized under the 2002 Farm Security and Rural Development Act through the Doha round of WTO negotiations; it may be time for Congress to send another shot across the bow to prevent the undermining of the FMIA and FPPIA through international discussions that have not had the benefit of congressional or public scrutiny.

For all of these reasons, we do not believe that the Agency is prepared to make radical changes to the current inspection system, no matter what terms they use to describe it. The concept of "continuous" government inspection has been the core of our meat inspection system for 100 years, and the Agency should not be permitted to abandon this principle.

PREPARED STATEMENT OF THE HUMANE SOCIETY

As the largest animal protection organization in the country, we appreciate the opportunity to provide testimony to the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Subcommittee on fiscal year 2007 funding items of great importance to The Humane Society of the United States (HSUS) and its more than 9.5 million supporters nationwide.

ENFORCEMENT OF ANIMAL WELFARE LAWS

We thank you for your outstanding support during recent years for improved enforcement by the U.S. Department of Agriculture (USDA) of key animal welfare laws and we urge you to sustain this effort in fiscal year 2007. Your leadership is making a great difference in helping to protect the welfare of millions of animals across the country. As you know, better enforcement will also benefit people by helping to prevent: (1) orchestrated dogfights and cockfights that often involve illegal gambling, drug trafficking, and human violence, and can contribute to the spread

of costly illnesses such as Exotic Newcastle Disease and bird flu; (2) injuries to slaughterhouse workers from animals that are still conscious; (3) the sale of unhealthy pets by commercial breeders, commonly referred to as “puppy mills”; (4) laboratory conditions that may impair the scientific integrity of animal based research; (5) risks of disease transmission from, and dangerous encounters with, wild animals in or during public exhibition; and (6) injuries and deaths of pets on commercial airline flights due to mishandling and exposure to adverse environmental conditions. In order to continue the important work made possible by the fiscal year 2006 budget, we request the following for fiscal year 2007:

APHIS/ANIMAL WELFARE ACT (AWA) ENFORCEMENT

We request that you support the President’s request of \$19,142,640 for AWA enforcement under APHIS. We commend the Committee for responding in recent years to the urgent need for increased funding for the Animal Care division to improve its inspections of more than 13,000 sites, including commercial breeding facilities, laboratories, zoos, circuses, and airlines, to ensure compliance with AWA standards. Animal Care now has 100 inspectors (with four vacancies that the agency is in the process of filling), compared to 64 inspectors at the end of the 1990s. We are pleased that the President’s budget recommends an increase of \$1,481,420 (plus allowance for pay costs) to cover hiring 15 new staff to further improve AWA enforcement in fiscal year 2007. This increase will enable the agency to handle additional responsibilities as the number of licensed/registered facilities has grown by 12 percent from fiscal year 2004 to fiscal year 2005.

APHIS/INVESTIGATIVE AND ENFORCEMENT SERVICES

We request that you support the President’s request of \$11,738,430 for APHIS Investigative and Enforcement Services. We appreciate the Committee’s consistent support for this division, which handles many important responsibilities including animal welfare. The President’s budget recommends an increase of \$1,235,000 (plus allowance for pay costs) and 12 staff years for IES in fiscal year 2007. A portion of this increase will be used to improve enforcement of federal animal welfare laws. The volume of animal welfare cases is rising significantly as new facilities become licensed and registered. In fiscal year 2005, IES conducted 575 animal care investigations, with 169 cases resolved through either civil penalty stipulations or Administrative Law Judge decisions and a total of \$1.1 million assessed in fines (compared to 288 investigations and 97 cases resolved through stipulations or ALJ decisions and \$548,614 in fines during fiscal year 2004).

OFFICE OF INSPECTOR GENERAL/ANIMAL FIGHTING ENFORCEMENT

We request sustained funding of \$800,000 for the Office of Inspector General to focus on enforcement of animal fighting laws (this amount is incorporated in the President’s request for OIG base funding). We appreciate the inclusion of \$800,000 in each of the past three fiscal years for USDA’s Office of Inspector General to focus on animal fighting cases. Congress first prohibited most interstate and foreign commerce of animals for fighting in 1976 and tightened loopholes in the law in 2002. Since then, USDA has begun to take seriously its responsibility to enforce this law, working with state and local agencies to complement their efforts. Dogfighting and cockfighting are barbaric (but still surprisingly widespread) practices in which animals are drugged to heighten their aggression and forced to keep fighting even after they’ve suffered grievous injuries. Animal fighting is almost always associated with illegal gambling, and also often involves illegal drug trafficking and violence toward people. Dogs bred and trained to fight endanger public safety, and some dogfighters steal pets to use as bait for training their dogs. Cockfighting was linked to an outbreak of Exotic Newcastle Disease in 2002–2003 that cost taxpayers more than \$200 million to contain. It’s also been linked to the death of at least eight people in Asia reportedly exposed through cockfighting activity to bird flu. Given the potential for further costly disease transmission, as well as the animal cruelty involved, we believe it would be a sound investment for the federal government to increase its efforts to combat illegal animal fighting activity.

FOOD SAFETY AND INSPECTION SERVICE/HUMANE METHODS OF SLAUGHTER ACT (HMSA) ENFORCEMENT

We request sustained funding of no less than \$5,000,000 and no fewer than 63 staff years for HMSA enforcement (this amount is incorporated in the President’s request for FSIS base funding) and continued funding of \$4,000,000 as provided in fiscal year 2006 for further implementation of the new tracking system. We are

grateful that Congress provided \$5 million in fiscal year 2006 to sustain at least 63 full time equivalent positions dedicated solely to inspections and enforcement related to the Humane Methods of Slaughter Act, plus \$4 million to incorporate a new tracking system to ensure compliance with this law. The HMSA is designed to ensure that livestock are treated humanely and rendered unconscious before they are killed. The effort to target funds for this purpose was undertaken following reports of lax enforcement of the HMSA and animals being skinned, dismembered, and scalded while still alive and conscious. Implementation of the Humane Animal Tracking System is ongoing; continued funding of \$4 million will be used to equip remaining facilities.

COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE/VETERINARY
STUDENT LOAN FORGIVENESS

We request \$1,000,000 to continue a pilot program for the National Veterinary Medical Service Act, authorized in 2003, that received initial funding of \$500,000 in fiscal year 2006. We appreciate that Congress has begun to address the critical shortage of veterinarians practicing in rural and inner-city areas, as well as in government positions such as at FSIS and APHIS. Having adequate veterinary care is a core animal welfare concern. There are only 70 veterinarians engaged in poultry practice to address the needs of approximately nine billion chickens raised each year in the United States, and only 75 veterinarians addressing the needs of 30 million beef cattle and 102 million pigs, respectively. Veterinarians support our Nation's defense against bioterrorism (the Centers for Disease Control estimate that 80 percent of potential bioterrorism agents are zoonotic—transmitted from animals to human). They are also on the front lines addressing public health problems associated with pet overpopulation, parasites, rabies, chronic wasting disease, bovine spongiform encephalopathy ("mad cow" disease), and a host of other concerns. Veterinary school graduates face a crushing debt burden of \$80,000 on average, and the lowest pay of any of the medical professions, with an average starting salary of \$43,000. For those who choose employment in underserved rural or inner-city areas or public health practice, the National Veterinary Medical Service Act authorizes the Secretary of Agriculture to forgive student debt. It also authorizes financial assistance for those who provide services during Federal emergency situations such as disease outbreaks or disasters. We hope you will build on the initial funding provided last year to expand this needed program under CSREES or such other account as the Committee deems appropriate.

APHIS/HORSE PROTECTION ACT ENFORCEMENT

We hope you will provide the \$492,030 requested by the President for fiscal year 2007, and we urge the Committee to oppose any effort to restrict USDA from enforcing this law to the maximum extent possible. Congress enacted the Horse Protection Act in 1970 to end the obvious cruelty of physically soring the feet and legs of show horses. In an effort to exaggerate the high-stepping gait of Tennessee Walking Horses, unscrupulous trainers use a variety of methods to inflict pain on sensitive areas of the feet and legs for the effect of the leg-jerk reaction that is popular among many in the show-horse industry. This cruel practice continues unabated by the well-intentioned but seriously understaffed APHIS inspection program. We appreciate the Committee's help providing modest increases to bring this program close to its authorized annual funding ceiling of \$500,000.

DOWNED ANIMALS AND BSE

We are pleased that the Bush Administration proposed an interim final rule in January 2004 to ban the use of downed cattle for human food, in the wake of the discovery of a cow in Washington State that was infected with Bovine Spongiform Encephalopathy (BSE). We hope the Committee will codify this ban—and extend it to other livestock besides cattle—with language barring the Food Safety and Inspection Service from spending funds to certify meat from downed livestock for human consumption. While the science to date on BSE has only indicated transmission from infected cows to people, downer pigs and other downer livestock are at a significantly higher risk of transmitting other serious and sometimes fatal illnesses through their meat, such as *E. coli* and *Salmonella*, and these animals, too, suffer when they are moved en route to slaughter.

As the Committee is aware, some segments of industry and members of Congress have recommended weakening the USDA downed cattle ban. They claim that animals unable to walk because of injury pose no health risk. But injury and illness are often interrelated—an animal may stumble and break a leg because of disease that causes weakness and disorientation. And USDA inspectors would have a dif-

difficult—if not impossible—task trying to sort out the reason an animal became non-ambulatory. Major consumer groups including Consumers Union and Consumer Federation of America, support groups for victims of food-borne illness such as Safe Tables Our Priority (S.T.O.P.), Creutzfeldt-Jakob Disease Foundation, and CJD Voice, food safety organizations, companies such as McDonald's and Wendy's, and many others have all pointed out how reckless such a system would be. Of the BSE cases identified in Canada and the United States to date, 7 out of 8 have involved downers, and at least 3 of these were identified as downed due to injuries, including the Washington State case ("calving injuries") and a January 2005 case in Canada ("slipped on ice/broken leg").

From an animal welfare perspective, a comprehensive ban is needed because a downer cow with a broken leg would suffer just as much as a sick one if it's dragged through a slaughterplant—maybe even more. A ban on use of all downers for human food also provides an incentive for producers to treat animals humanely and prevent livestock from going down. Even before the administrative ban, USDA estimated that only 0.4 percent to 0.8 percent of all cows processed annually were non-ambulatory. The downer ban encourages producers and transporters to engage in responsible husbandry and handling practices, so that this percentage may be reduced to levels approaching zero. Temple Grandin—advisor to the American Meat Institute and others in the meat industry—has noted that as many as ninety percent of all downers are preventable. Cases that involve broken bones and other injuries are perhaps the most preventable with improved husbandry.

Most Americans had no idea that animals too sick or injured to walk were being dragged with chains or hauled by bulldozer en route to the food supply. When that fact came to light in December 2003, USDA's prompt decision to ban all downer cattle from human food calmed consumers. Unraveling the ban would undermine consumer confidence. More than 99 percent of the 22,000+ public comments USDA received on its downer ban called on the agency to maintain and strengthen its downer ban, with most asking that other species be included. For a report on the comments received by the agency, please go to: http://files.hsus.org/web-files/PDF/2004_06_16_rept_USDA_comments.pdf.

USDA testimony before various congressional committees has made clear that the agency need not rely on slaughterplant testing of downers for BSE surveillance purposes. Surveillance of downers can and should be conducted at rendering plants and on farms.

In addition to the downer issue, we urge the Committee to provide adequate funding to ensure meaningful enforcement by the Food and Drug Administration of its "feed ban," designed to prevent BSE-contaminated animal products from being fed to other animals. We are concerned that inspectors visit facilities infrequently and rely on self-reporting by those facilities and paperwork checking rather than first-hand evaluation of feed content and dedicated production lines. We are also concerned that FDA relies a great deal on state agencies to conduct this oversight, when most states face severe budget constraints that may compromise their ability to handle this job. Preventing the spread of BSE is vital to the Nation as a whole, for public health, the agricultural industry, and animal welfare. Vigorous enforcement of the feed ban is an essential component of this effort. We hope adequate Federal funds will be provided in fiscal year 2007 to meet this challenge.

Again, we appreciate the opportunity to share our views and priorities for the Agriculture, Rural Development, and Related Agencies Appropriation Act of fiscal year 2007. We appreciate the Committee's past support, and hope you will be able to accommodate these modest requests to address some very pressing problems affecting millions of animals in the United States. Thank you for your consideration.

PREPARED STATEMENT OF INTERREGIONAL RESEARCH PROJECT NO. 4

The Interregional Research Project No. 4 (IR-4 Project) was organized 43 years ago by the Directors of the State Agricultural Experiment Stations (SAES) to obtain regulatory clearances for crop protection chemicals on specialty or minor food crops when the economic incentives for the registrants precluded private sector investment. IR-4 has been administered by the United States Department of Agriculture's (USDA's) Cooperative State Research, Education, and Extension Service (CSREES) since its inception in 1963. The Agricultural Research Service (ARS) component of the USDA established a companion minor use program in 1976 to provide further program support. The objectives of the IR-4 Project were expanded in 1977 to include registration of pest control products for the protection of nursery, floral, Christmas tree, and turf crops and again in 1982 when the objective of clearance of biological control agents or biopesticides was added.

The IR-4 Project works as a model government program that fosters cooperative partnerships between the USDA (CSREES and ARS), the IR-4 Headquarters and Regional staff, the land grant university system, the crop protection industry, commodity and grower groups, the Environmental Protection Agency (EPA), and the California Department of Pesticide Regulation (CDPR) to bring crop protection solutions to specialty crop growers.

The Food Use Program is the primary focus of the IR-4 Project. To streamline the project request process, growers, commodity groups, university researchers and extension personnel, USDA researchers and other interested parties can submit online requests directly from our website at: <http://www.ir4.rutgers.edu/FOODRequestForm.htm>. The requests are recorded and reviewed by IR-4 Headquarters staff. At the annual Food Use Workshop, growers, commodity groups, university and USDA researchers, extension personnel, and EPA staff discuss and prioritize the projects by consensus. The high priority projects are finalized the following month at the annual National Research Planning Meeting where field residue and analytical laboratory assignments are made based on the best use of available USDA-ARS and land grant university personnel within the funding provided by Congress. For more information concerning the food use program and the status of on-going projects or studies, access the IR-4 website at: <http://www.ir4.rutgers.edu/foodcrops.html>. All IR-4 food use residue research is carried out by EPA approved Good Laboratory Practices (GLP's) with coordination and implementation by the Quality Assurance Unit (QAU). Annual training of the Field Research Directors, laboratory personnel and support staff involved in the conduct of work is essential to the success of the IR-4 Project. GLP compliance audits of facilities and of ongoing field and laboratory procedures, provides assurance that IR-4 food safety data will be accepted by the crop protection industry, growers and the EPA.

The 991 food use clearances obtained in 2005 boosted the 43 year total to over 9,300 clearances. It is interesting to note that 53 percent (4,949) of all clearances in the program's history have been obtained in the last 8 years. In pursuit of this remarkable accomplishment, IR-4 continues its commitment to producing high quality, compliant scientific data in order to meet EPA's GLP requirements and strive to further enhance our effectiveness and efficiency by providing continuing GLP education and/or QA training sessions for IR-4 personnel and cooperators, audit data and reports, as well as, review and revise Standard Operating Procedures (SOP's).

The research program for year 2006 consists of approximately 110 studies supported by 701 field trials. One hundred and six (106) of these studies will require the collection of residue samples and 4 studies will be for collecting efficacy and/or crop safety data to support specific data needs. The smaller efficacy program this year is a result of the reduced budget in 2006 thereby eliminating the pilot efficacy program. Five hundred and twenty-eight (528) of the field trials will be conducted by regional State agricultural research stations, while USDA-ARS will be conducting 115 field trials and Canada has agreed to cooperate on 58 trials.

The Section 18 Economic Benefits/Loss Avoidance Project to document potential economic impact (loss) data from state submitted Section 18's approved by the EPA and supported by IR-4 residue data was initiated in 1998. Since this initiative began, a total of 205 Section 18's have been converted to full Section 3 labels as a result of IR-4 petitions. This is the result of IR-4's commitment to minimize the number of years that Section 18's are needed on new crop protection products before Section 3 labels are approved by the EPA. The total over the eight year period from 1998 to 2005 (where the data are available) bring the total economic impact/loss avoidance to \$12.589 billion from 1,229 Section 18's covering 47 States.

The ornamental industry is an extremely important component of specialty crop agriculture with over \$15 billion in annual sales which comprise over 35 percent of all specialty crop sales. The research to develop efficacy and crop safety data to support registration of both traditional chemicals and biopesticides as pest control tools on ornamentals continues to be an important component of our overall program. The industry presents a formidable challenge since it involves a diverse array of crops in various markets such as floral, bulbs, forestry seedlings, Christmas trees, nursery, turf, commercial and interior landscapes, greenhouses, etc.

Like the Food Use Program, requests are received, recorded and reviewed by IR-4 Headquarters. At the annual Ornamental Horticulture Workshop, growers, commodity groups, university and USDA researchers, extension personnel and EPA staff discuss and prioritize the projects by consensus. The efficacy and crop safety trials are planned in discussions between the IR-4 Headquarters Ornamental Horticulture Manager, regional field coordinators and ARS leadership. In 2006, the Ornamental Horticulture research program will focus on the high priority projects estab-

lished at the annual workshop: Phytophthora Efficacy, Pythium Efficacy, Thrips Efficacy, Coleopteran Efficacy, and Broadleaf Weed and Sedge Management Tools Crop Safety. The research program also enables each regional field coordinator to focus some discretionary funds on trials of specific regional interest. The Northeast and Southern regions are coordinating their funding on herbicide fern safety, while the Western region enhanced the testing program for the high priority herbicide project.

The Biopesticide Research Program continued its 8 year of competitive grant funding of projects for \$400,000 and amounting to over \$3,325,000 since its inception. In addition to funding projects that have focused in recent years on the biopesticides considered Advanced Stage (near commercialization or commercialized but expanding uses to specialty crops), IR-4 has continued to help biopesticide registrants with regulatory support needs.

For the 2006 Biopesticide Research Program, IR-4 received a total of 113 proposals requesting approximately \$1.2 million. Of the 113 proposals, 21 were Early Stage, 64 were Advanced Stage and 28 were Demonstration Stage of which 70 involved disease management, 24 were for insect/mite management, 5 were for weed control, 11 were for nematode control, 2 were plant growth regulators and 1 involved bird management. The 2006 program will fund 42 of the project proposals.

Without the existence of the IR-4 Project, fewer safe and effective crop protection chemicals and biological alternatives would be available for use on specialty crops today. The crop protection industry has continued to be an excellent partner in working with IR-4 to provide their latest technologies, both chemical and biological, for specialty crop uses. However, the Project must continue to evolve in order to stay relevant. To this end, the importance of the continued special research grant funding and strategic plan implementation will be critical to the future of IR-4.

Three hot topics for the fiscal year 2007 Congressional Appropriations hearings were recently posed to the Cooperative State Research, Education and Extension Service concerning the IR-4 Project. The questions asked and answers provided are as follows:

Question. What has the Inter-regional Project #4 (IR-4) done to provide safe and effective pest management solutions for growers of specialty crops in the United States?

Answer. By cooperating with researchers, producers, the agrichemical industry and Federal agencies, IR-4 has achieved over 9,300 food crop and 10,000 ornamental crop registrations for pest management products since the project began in 1963. In 2004 and 2005 alone, there were over 2,000 clearances for these specialty crops which are collectively valued at \$43 Billion. Priorities for future research and future registrations are established at IR-4's annual Food Use and Ornamental Horticulture Workshops and a record attendance of over 325 stakeholders participated in defining IR-4's workplan for 2006.

Question. Since horticultural/specialty crops are an important part of U.S. agriculture, what is being done to improve export opportunities for the producers of these crops?

Answer. Over the past decade, the agrichemical industry has developed a range of new, safer products and IR-4 has been very successful in expanding the registrations of these products facilitating their use on specialty crops. This has significantly benefited growers producing food for domestic markets. However, some of their new lower risk products are not approved by some of the U.S. trading partners resulting in U.S. growers not being able to use some of these products if their produce is going to be shipped to countries that do not have Maximum Residue Limits (MRLs) established for these new products. Therefore, it has become critically important for a product to be available globally in order to level the playing field for United States specialty crop growers who wish to export their crops. IR-4 is in a unique position to facilitate the Global Specialty Crop Initiative where existing data in the IR-4 Library can be used to solve some of the trade issues. This initiative would enhance global registrations and reduce trade barriers, while at the same time further promote the use of new, safer pest management products both domestically and world wide.

Question. What is the economic impact of the IR-4 Project on United States specialty crop growers?

Answer. Using economic loss avoidance data submitted to the EPA by 47 states covering over 1225 Section 18 requests supported by IR-4 specialty crop residue data, the economic loss avoidance between 1998 and 2005 has been \$12.6 billion.

PREPARED STATEMENT OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN
CALIFORNIA

The Metropolitan Water District of Southern California is writing in support of the following Federal program under the Department of Agriculture's (USDA) budget that we believe is deserving of your Subcommittee's support during the fiscal year 2007 budget process:

Natural Resources and Environment Mission Area—Agency: Natural Resources Conservation Service (NRCS)—Farm Bill Programs (Funded by the Commodity Credit Corporation)—Environmental Quality Incentives Program:

—\$1 billion requested by the President nationwide with \$25 million designated by the NRCS for the Colorado River Basin Salinity Control Program.

The Metropolitan Water District of Southern California is a public agency that was created in 1928 to meet the supplemental water demands of people living in what is now portions of a six-county region of southern California. Today, the region served by Metropolitan includes approximately 18 million people living on the coastal plain between Ventura and the international boundary with Mexico.

Included in our region are more than 300 cities and unincorporated areas in the counties of Los Angeles, Orange, San Diego, Riverside, San Bernardino, and Ventura. We provide over half of the water used in our 5,200-square-mile service area and help our members to develop local supplies through increased water conservation, recycling, storage and other resource-management programs. Metropolitan's imported water supplies come from the Colorado River via our Colorado River Aqueduct and from northern California via the State Water Project's California Aqueduct.

MWD continues to support USDA implementation of conservation programs. MWD firmly believes that interagency coordination, along with incentive-based cooperative conservation programs that facilitate the development of partnerships, are critical to addressing natural resources concerns, such as water quality degradation, wetlands loss and wildlife habitat destruction. It is vital that the Congress provides USDA with the funding necessary to successfully carry out its commitment to natural resources conservation.

Environmental Quality Incentives Program (EQIP)

An important program for MWD has been the Colorado River Basin Salinity Control Program, which is funded by USDA at the Federal level through the Environmental Quality Incentives Program. MWD recommends that EQIP be funded at \$1 billion in fiscal year 2007, as proposed in the President's Budget, with the Colorado River Basin Salinity Control Program funded at \$25 million, 2.5 percent of the EQIP budget, as requested by the seven Colorado River Basin states through the Colorado River Basin Salinity Control Forum.

EQIP provides assistance to farmers and ranchers who face threats to soil, water, air and related natural resources on their land. EQIP provides assistance in a manner that will promote agricultural production and environmental quality as compatible goals. NRCS offers the program throughout the Nation.

In Public Law 104-127, Congress amended the Colorado River Basin Salinity Control Act to direct the Secretary of Agriculture to carry out salinity control measures in the Colorado River Basin as part of EQIP. Beginning with the first full year of EQIP funding in 1997 through 2001, USDA's participation in the Colorado River Basin Salinity Control Program (Salinity Control Program) had significantly diminished as compared to the 1996 level of funding for salinity control. After requests had been made by the Colorado River Basin Salinity Control Forum (Forum), the interstate organization responsible for coordinating the seven Basin states' salinity control efforts, and others, as well as directives from the Congress, USDA concluded that the Salinity Control Program warranted a multi-state river basin approach. The Forum is composed of Gubernatorial appointees from Arizona, California, Colorado, Nevada, New Mexico, Utah, and Wyoming. Clearly, Colorado River Basin salinity control has benefits that are not merely local or intrastate in nature, but continue downstream. EQIP is also important because it provides funding for agricultural source water protection measures that protect and improve the quality of Metropolitan's imported supplies from Northern California.

The Colorado River is a large component of Southern California's regional water supply and its relatively high salinity causes significant economic impacts on water customers in MWD's service area, as well as throughout the Lower Colorado River Basin (Lower Basin). MWD and the Bureau of Reclamation (Reclamation) completed a Salinity Management Study for Southern California in June 1999. The study concluded that the high salinity from the Colorado River continues to cause significant impacts to residential, industrial and agricultural water users. Furthermore, high

salinity adversely affects the region's progressive water recycling programs, diminishes the effectiveness of water conservation efforts, and is contributing to an adverse salt buildup through infiltration into Southern California's irreplaceable groundwater basins.

In April 1999, MWD's Board of Directors authorized implementation of a comprehensive Action Plan to carry out MWD's policy for management of salinity. The Action Plan focuses on reducing salinity concentrations in Southern California's water supplies through collaborative actions with pertinent agencies, recognizing that an effective solution requires a regional commitment. MWD, the Association of Groundwater Agencies, the Southern California Association of Publicly Owned Treatment Works, and the WaterReuse Association of California have formed a Salinity Management Coalition.

During 2002, the Coalition was expanded to include major water and wastewater agencies throughout Southern California. Presently, the ten members of the coalition are working to implement a Strategic Action Plan that focuses primarily on local contributions to southern California's high-salinity problem.

In addition, Southern California leaders are working with urban areas in Arizona, Nevada, New Mexico, and Texas to find solutions to mutual problems with salinity in imported supplies, such as from the Colorado River, and other sources. These agencies participate in the annual National Salinity Summit to examine and coordinate salinity management activities.

Concentrations of salts in the Colorado River cause hundreds of millions of dollars in damage in the United States according to the U.S. Department of the Interior. Implementation of salinity control measures:

- increases the yield of salt sensitive crops and decreases water use for leaching in the agricultural sector,
- increases the useful life of galvanized water pipe systems, water heaters, faucets, garbage disposals, clothes washers, and dishwashers, and decreases the use of bottled water and water softeners in the household sector,
- decreases the use of water for cooling, and the cost of water softening, and increases equipment service life in the commercial sector,
- decreases the use of water and the cost of water treatment, and decreases sewer fees in the industrial sector,
- increases the life of treatment facilities and pipelines in the utility sector,
- eases the meeting of wastewater discharge requirements to comply with National Pollutant Discharge Elimination System permit terms and conditions, and decreases desalination and brine disposal costs due to less accumulation of salts in groundwater basins, and
- decreases use of imported water for leaching and the cost of desalination and brine disposal for recycled water.

Absent the Salinity Control Program, impacts would progressively increase with continued agricultural and urban development upstream of California's points of Colorado River diversion. Droughts will cause spikes in salinity levels in the future that will be highly disruptive to Southern California water management and commerce. The Salinity Control Program has proven to be a very cost-effective approach to help mitigate the impacts of higher salinity. Adequate Federal funding of the Salinity Control Program is essential.

The Forum issued its 2005 Review, Water Quality Standards for Salinity, Colorado River System (2005 Review) in October 2005. The 2005 Review found over 900,000 tons of salinity needs to be controlled annually to maintain 2004 salinity levels through 2025. From 1994 through 2003, funding for USDA's salinity control program did not equal the Forum-identified funding need for the portion of the program the Federal Government is responsible to implement. While NRCS has designated Colorado River Basin salinity control as an area of special interest, appointed a multi-state coordinator, and allocated about \$19.5 million in fiscal years 2005 and 2006, it is essential that implementation of salinity control efforts through EQIP continue to be accelerated to reduce economic impacts. The Basin states and farmers continue to stand ready to pay their share of the implementation costs of EQIP.

The Forum has determined that allocation of 2.5 percent of the EQIP funds, that is \$25 million, is needed in fiscal year 2007 for on-farm measures to control Colorado River Basin salinity. Funding at this level will permit the state adopted and U.S. Environmental Protection Agency approved water quality standards to be met. With 2.5 percent of the EQIP cost share financial assistance, monitoring, and technical assistance funding requested by the President allocated to the Salinity Control Program, an additional \$21 million in states and local cost sharing could be committed.

MWD urges the Subcommittee to support funding of \$1 billion for EQIP, the amount requested in the President's Budget, and advise USDA that \$25 million, or 2.5 percent of the EQIP funds, be designated for the Salinity Control Program. Thank you for your consideration of our testimony. USDA's conservation programs are critical for achieving Colorado River Basin salinity control objectives, as well as broader source water quality protection objectives in the Colorado River Basin and California.

We look forward to working with you and your Subcommittee. Please contact me at (213) 217-6211, if I can answer any questions or provide additional information.

PREPARED STATEMENT OF THE MIDWEST ADVANCED FOOD MANUFACTURING
ALLIANCE (MAFMA)

The Midwest Advanced Food Manufacturing Alliance (MAFMA) is a research consortium involving 13 leading Midwestern universities (University of Illinois, Indiana University, Iowa State University, Kansas State University, Michigan State University, University of Minnesota, University of Missouri, University of Nebraska, North Dakota State University, Ohio State University, Purdue University, South Dakota State University, University of Wisconsin). MAFMA expedites the development of new manufacturing and processing technologies for food and related products derived from U.S. produced crops and livestock and thus contributes to the economic development of the U.S. food industry, one of this country's premier industry sectors. The research of MAFMA is conducted by scientists in food science and technology, food engineering, nutrition, microbiology, and other relevant disciplines from universities participating in the MAFMA consortium. MAFMA sponsors an annual peer-reviewed research competition where superior research proposals are selected from among the submissions of scientists from these 13 universities. Specific research proposals are funded on a competitive basis to university scientists who must also demonstrate matching funds from non-Federal sources (primarily the food industry) for research involving processing, packaging, storage, and transportation of food products. The close cooperation between university and corporate researchers assures that the latest scientific advances are applied to the most relevant problems and that any solutions will be efficiently transferred and used by the private sector. MAFMA research proposals are peer-reviewed by scientists from academia and industry who are not affiliated with the 13 institutions or any of the companies providing matching funds which assures that the proposed research is sound and likely to contribute valuable scientific information. The MAFMA project has been funded for 12 years and this proposal will fund the 13th year of competition. During the past 12 years, the MAFMA consortium has funded 136 projects for a total of \$4,327,570 of USDA funds and an impressive total of \$6,369,623 in matching funds from non-Federal (primarily food industry) sources involving 193 companies and other entities.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF STATE FORESTERS

INTRODUCTION

The National Association of State Foresters (NASF) is pleased to provide testimony on the U.S. Department of Agriculture (USDA) budget request for fiscal year 2007. Representing the directors of State forestry agencies from all 50 States, eight U.S. territories, and the District of Columbia, our testimony centers around those program areas most relevant to the long-term forestry operations of our constituents: Research, Education, and Economics, as well as Natural Resources and Environment. We believe the USDA budget for fiscal year 2007, which offers opportunities for advancing the sustainable management of private forestland nationwide, can be strengthened through our recommendations.

USDA COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE (CSREES)
PROGRAMS

Cooperative Forestry Research (McIntire-Stennis) Program.—The Cooperative Forestry Research (McIntire-Stennis) Program (CFRP) is a crucial part of the foundation that underlies academic and scientific understanding of the Nation's forest resources. McIntire-Stennis CFRP was originally enacted in order to provide universities with formula funds for the explicit purpose of research in the field of forestry, which was not provided for in similar research funding programs. For more than 40 years, CFRP has equipped both private and land-grant universities with the abil-

ity to produce invaluable research concerning forest productivity, environmental quality, and technologies for monitoring and extending the natural resource base. The program also provides rigorous scientific education and training for university students—the future managers of the Nation's forest resources.

Universities, supported by base funds from the Federal Government, have consistently supplied science-based forestry research not affiliated with any particular resource use or interest group. Without sufficient base funds from the Federal Government, society will lose the benefits wrought by this productive partnership.

NASF recommends \$24.5 million for the Cooperative Forestry Research (McIntire-Stennis) Program. The proposed increase in CFRP will help the program continue to serve as the cornerstone of forest research in universities, providing knowledge central to sound management from environmental, economic, and social perspectives. In addition, we strongly urge the Subcommittee to reject the President's proposal to shift 59 percent of the program to competitive funding.

The Renewable Resources Extension Act (Rrea).—The Renewable Resources Extension Act (RREA) facilitates the transfer of needed forestry information and technology to non-industrial private forest landowners, as well as loggers and small businesses involved with forest resource management.

Extension's education programs aid private landowners in understanding their management options and responsibilities, and encourage them to take advantage of other technical and financial assistance programs.

NASF recommends funding RREA at \$4.1 million for fiscal year 2007, in order to sustain the program's ability to address critical extension and stewardship needs.

FARM BILL CONSERVATION PROGRAMS

NASF believes that the conservation programs enacted in the 2002 Farm Bill are integral for protecting water quality, erodible soils, wildlife habitat, and wetlands associated with agricultural and forestry operations. Trees and forestry practices are often the best solution to many of the conservation challenges arising from these operations.

NASF recommends funding for the Environmental Quality Incentives Program (EQIP) at the fiscal year 2006 level of \$1.2 billion, full funding for the Conservation Reserve Program (CRP), and \$85 million for the Wildlife Habitat Improvement Program (WHIP). NASF supports the President's fiscal year 2007 funding proposal of \$342 million for the Conservation Security Program (CSP). NASF recommends that the Subcommittee encourage the Secretary of Agriculture and the NRCS to expand the emphasis on forestry practices in EQIP and the other Farm Bill Conservation Programs.

These programs are important for landowners with both forest and agricultural land, as well as farmers who wish to plant trees for conservation purposes on their agricultural lands. Nearly two thirds of the land in the United States is forested, the majority of which is privately owned. Investing Federal funds in conservation practices on private forest lands produces benefits for all, not simply landowners. These benefits include abundant clean water for drinking and recreation, improved wildlife habitat, open space, viable rural economies, and many other tangible and intangible public benefits.

CONCLUSION

The National Association of State Foresters seeks the Subcommittee's support for a USDA fiscal year 2007 budget that will make sure the public's conservation needs—provided by private landowners—are met. Thank you for the opportunity to provide our testimony.

PREPARED STATEMENT OF THE NATIONAL COALITION FOR FOOD AND AGRICULTURAL RESEARCH

Dear Mr. Chairman, Ranking Member Kohl and Members of the Subcommittee: On behalf of the National Coalition for Food and Agricultural Research¹ (National C-FAR), we are pleased to submit comments in strong support of enhanced public investment in food and agricultural research, extension and education as a critical

¹As part of its mission, National C-FAR seeks to increase awareness about the value of food and agricultural research, extension and education. For example, National C-FAR is hosting an educational series of "Lunch-N-Learn" seminars on the hill, featuring leading-edge researchers on timely topics to help demonstrate the value of public investment in food and agricultural research, extension and education. More information about National C-FAR and its programs is available at <http://www.ncfar.org>.

component of Federal appropriations for fiscal year 2007 and beyond. National C-FAR serves as a forum and a unified voice in support of sustaining and increasing public investment at the national level in food and agricultural research, extension and education. National C-FAR is a nonprofit, nonpartisan, consensus-based and customer-led coalition established in 2001 that brings food, agriculture, nutrition, conservation and natural resource organizations together with the food and agriculture research and extension community.

Support for Fiscal Year 2007 Funding for Food & Agricultural Research, Extension & Education

CSREES—National C-FAR urges the Subcommittee and Committee to support the Administration's fiscal year 2007 request for USDA's Cooperative State Research, Education, and Extension Service (CSREES) of \$1.038 billion, and to augment funding to the extent practicable since it represents a significant decrease from fiscal year 2006 funding levels. In particular, National C-FAR supports the Administration's \$247.5 million request for the National Research Initiative (NRI). This represents a significant increase over fiscal year 2006 levels. While a portion of the proposed increase occurs through the shifting of Section 406 Integrated Activities funding and responsibilities (such as food safety, pest management, and water quality) to NRI, funding for NRI would still realize a net increase of \$24 million. Significantly, the Administration's proposal increases the cap for Integrated Activities funding, providing more funding for projects that include both research and extension components.

The NRI supports research on key problems of national and regional importance in biological, environmental, physical, and social sciences relevant to agriculture, food, and the environment on a peer-reviewed, competitive basis. Additionally, the NRI enables USDA to leverage a portion of its funds for food and agricultural research, extension and education by fostering the development of new partnerships with other Federal agencies that advance agricultural science. Examples of successful collaborations include USDA's involvement in the Microbial Genome Sequencing Program, the Maize Genome Program, the Microbial Observatories program, the Plant Feedstock Genomics for Bioenergy program, the Metabolic Engineering program, and the Climate Change Science Plan.

ARS—National C-FAR is concerned about the Administration's proposed \$123 million cut in funding for the USDA Agricultural Research Service (ARS), as compared with fiscal year 2006 funding levels. Indeed ARS funding has been cut each of the past several years. Research conducted by ARS helps to ensure high-quality, safe food, and other agricultural products, assess the nutritional needs of Americans, sustain a competitive agricultural economy and enhance the natural resource base and the environment. The steady erosion in ARS funding could jeopardize the ability of the agency to carry out its important mission.

ERS—National C-FAR urges the Subcommittee and Committee to support the Administration's fiscal year 2007 request of \$83 million for the USDA, Economic Research Service (ERS), which represents a modest increase over the fiscal year 2006 level. Many of the research outcomes generated through ERS efforts provide value in both policy and business application terms far in excess of what the modest size of the ERS budget might suggest. An important part of the Administration's budget includes \$5 million for the ERS to establish and maintain data collection on the demographic, economic, government program participation, and other information from samples of non-farm rural households and rural-based farm households, over time. National C-FAR believes such new and valuable data is necessary for a variety of purposes, including estimating impacts of farm policy changes. National C-FAR urges full funding of this initiative to assure that agricultural and rural economic analysts can reap the minimum necessary value added that will, in turn, enhance contributions to a sound farm policy and more robust rural economies throughout the Nation.

National C-FAR urges that funding for food and agricultural research, extension and education be augmented to the maximum extent practicable, as an important next step toward building the funding levels needed to meet identified food and agricultural research, extension and education needs.

As a coalition representing stakeholders in both the research, extension and education community and the customers' who need and depend upon their outcomes, National C-FAR urges expanded public participation in the Administration's research priority setting and funding decision process and stands ready to work with the Administration and other interested stakeholders toward that end.

DEMONSTRATED VALUE OF PUBLIC INVESTMENTS IN FOOD AND AGRICULTURAL
RESEARCH, EXTENSION AND EDUCATION

Public and private investments in U.S. agricultural research and practical application of results have paid huge dividends to the United States and the world, especially in the latter part of the 20th century. However, these dividends are the result of past investments in agricultural research.

If similar research dividends are to be realized in the future, then the Nation must commit to a continuing investment that reflects the long-term benefits of food and agricultural research.

Food and agricultural research, extension and education to date have helped provide the United States with an agricultural system that consistently produces high quality, affordable food and natural fiber, while at the same time:

—*Creating Jobs And Income.*—The food and agricultural sector and related industries provide over 20 million jobs, about 17 percent of U.S. jobs, and account for nearly \$1 trillion or 13 percent of GDP.

—*Helping Reduce The Trade Deficit.*—Agricultural exports average more than \$50 billion annually compared to \$38 billion of imports, contributing some \$12 billion to reducing the \$350 billion trade deficit in the nonagricultural sector.

—*Providing Many Valuable Aesthetic And Environmental Amenities To The Public.*—The proximity to open space enhances the value of nearby residential property. Farmland is a natural wastewater treatment system. Unpaved land allows the recharge of the ground water that urban residents need. Farms are stopovers for migratory birds. Farmers are stewards for 65 percent of non-Federal lands and provide habitat for 75 percent of wildlife.

—*Sustaining Important Strategic Resources.*—This Nation's abundant food supply bolsters national security and eases world tension and turmoil. Science-based improvements in agriculture have saved over a billion people from starvation and countless millions more from the ravages of disease and malnutrition.

Publicly financed research, extension and education are necessary complements to private sector research, focusing in areas where the private sector does not have an incentive to invest, when (1) the pay-off is over a long term, (2) the potential market is more speculative, (3) the effort is during the pre-technology stage; and (4) where the benefits are widely diffused. Public research, extension and education help provide oversight and measure long-term progress. Public research, extension and education also act as a means to detect and resolve problems in an early stage, thus saving American taxpayer dollars in remedial and corrective actions.

By any standard, the contributions of publicly supported agricultural research, extension and education to advances in food production and productivity and the resulting public benefits are well documented. For example, an analysis by the International Food Policy Research Institute of 292 studies of the impacts of agricultural research and extension published since 1953 (Julian M. Austin, et al, A Meta-Analysis of Rates of Return to Agricultural Research, 2000) showed an average annual rate of return on public investments in agricultural research and extension of 81 percent!

NATIONAL C-FAR URGES ENHANCED FEDERAL FUNDING FOR FOOD AND AGRICULTURAL
RESEARCH, EXTENSION AND EDUCATION

National C-FAR appreciates the longstanding support this Subcommittee and the full Committee have demonstrated through funding food and agricultural research, extension and education programs over the years that have helped the U.S. food and agricultural sector be a world leader and provide unprecedented value to U.S. citizens, and indeed the world community.

National C-FAR is deeply concerned that shortfalls in funding in recent years for food and agricultural research, extension and education jeopardize the food and agricultural community's continued ability to maintain its leadership role and more importantly respond to the multiple, demanding challenges that lie ahead. Federal funding for food and agricultural research, extension and education has been flat for over 20 years, while support for other Federal research has increased substantially. Public funding of agricultural research in the rest of the world during the same time period has reportedly increased at a nearly 30 percent faster pace.

Reduced public investment in food and agricultural research, extension and education may well be a result of a view that the U.S. food and agricultural system is an unprecedented success story. However, societal demands and expectations placed upon the food and agricultural system are ever-changing and growing. Simply stated, Federal funding has not kept pace with identified priority needs.

National C-FAR believes it is imperative to lay the groundwork now to respond to the many challenges and promising opportunities ahead through Federal policies

and programs needed to promote the long-term health and vitality of food and agriculture for the benefit of both consumers and producers. Stronger public investment in food and agricultural research, extension and education is essential in producing research outcomes needed to help bring about beneficial and timely solutions to multiple challenges. Multiple examples, such as those listed below, serve to illustrate current and future needs that arguably merit enhanced public investment in research, extension and education so that the food and agricultural system can respond to these challenges on a sustainable basis:

- Strengthened bio-security is a pressing national priority. There is a compelling need for improved bio-security and bio-safety tools and policies to protect against bio-terrorism and dreaded problems such as foot-and-mouth and “mad cow” diseases and other exotic plant and animal pests, and protection of range lands from invasive species.
- Energy costs are escalating, dependence on petroleum imports is growing and concerns about greenhouse gases are rising. Research, extension and education can enhance agriculture’s ability to provide renewable sources of energy and cleaner burning fuels, sequester carbon, and provide other environmental benefits to help address these challenges, and indeed generate value-added income for producers and stimulate rural economic development.
- Food-linked health costs are high. Some \$100 billion of annual U.S. health costs are linked to poor diets, obesity, food borne pathogens and allergens. Opportunities exist to create healthier diets through fortification and enrichment.
- Research, extension and education are key to providing to solutions to environmental issues related to global warming, limited water resources, enhanced wildlife habitat, and competing demands for land and other agricultural resources.
- There was considerable debate during the last farm bill reauthorization about how expanded food and agricultural research, extension and education could enhance farm income and rural revitalization by improving competitiveness and value-added opportunities.
- Population and income growth are expanding the world demand for food and natural fiber and improved diets. World food demand is projected to double in 25 years. Most of this growth will occur in the developing nations where yields are low, land is scarce, and diets are inadequate. Without a vigorous response, demand will only be met at a great global ecological cost.
- Regardless of one’s views about biotechnology and genetic resources, an effective publicly funded research role is needed for oversight and to ensure public benefits.

Translational education (extension) is a vital link connecting the research community to those who need and use research outcomes. The extension and education system helps translate basic and applied research outcomes into practical applications and more timely implementation by the end user community, thus helping to realize positive economic, environmental, health, food security and a host of other benefits in the food and agricultural system, and for the consuming public. The extension community is evolving its mission in a positive direction, seeking to engage constituents in a way that not only fulfills the traditional extension role but also actively solicits feedback concerning research and extension needs as identified by the customers’ who need research outcomes. This is consistent with National C–FAR’s mission of increasing stakeholder involvement in decision making about research priorities and funding. The USDA NRI has made significant progress in recognizing the extension role, through funding of projects that undertake an integrated research and extension approach. National C–FAR strongly supports funding for extension and education.

Finally, there is a continuing need to build the human capacity of expertise to do quality food and agricultural research, extension and education, and to implement research outcomes in the field and laboratory. The food and agricultural sciences face a daunting task of supplying the Nation with the next generation of scientists and educators. If these basic human resource needs are not met, then the Nation will face a shortage of trained and qualified individuals.

Public investment in food and agricultural research, extension and education today and in the future must simultaneously satisfy needs for food quality and quantity, resource preservation, producer profitability and social acceptability. National C–FAR supports the public funding needed to help assure that these interdependent needs are met.

A Sense of the Congress resolution endorsed by National C–FAR to double funding in food and agricultural research, extension and education within five years was incorporated into the 2002 Farm Bill that was enacted into law. However, the major

commitment to expanded research has not yet materialized. At the four-year mark, the larger reality is the threat of funding cuts.

CONCLUSION

In conclusion, National C–FAR respectfully submits that—

- The food and agricultural sector merits Federal attention and support;
- Food and agricultural research, extension and education have paid huge dividends in the past, not only to farmers, but to the entire Nation and the world;
- There is an appropriate and recognized role for Federal support of research, extension and education;
- Recent funding levels for food and agricultural research, extension and education have been inadequate to meet pressing needs;
- Federal investments in food and agricultural research, extension and education should be enhanced in fiscal year 2007 and beyond; and
- The Administration should provide for expanded public participation, including during review of programs being considered for possible reforms or cuts.

National C–FAR appreciates the opportunity to share its views and stands ready to work with the Chair and members of this Subcommittee and Committee in support of these important funding objectives.

PREPARED STATEMENT OF THE NATIONAL COOPERATIVE BUSINESS ASSOCIATION

The National Cooperative Business Association appreciates the opportunity to submit testimony on the importance of the Rural Cooperative Development Grant program and the need for increased funding. NCBA is the Nation's only national organization representing cooperatives across all economic sectors—including agriculture, childcare, electricity, finance, food retailing and distribution, healthcare, housing, insurance, purchasing and shared services, telecommunications and many others.

The Rural Cooperative Development Grant program, which NCBA helped to establish, is the only dedicated source of Federal funding supporting the network of more than 20 cooperative development centers serving more than 40 States. This funding leverages much more from State and local as well as private sources. The program also includes money for economic research on the impact of cooperatives, research needed to inform policymakers and cooperatives about how best co-ops can address issues facing this Nation such as senior services and rural housing.

Congress recognized the importance of the work of cooperative development centers when it enacted the program in 1996 and authorized \$50 million annually to help create businesses and jobs in rural America. In 2002, Congress reauthorized the program at the same level. Unfortunately, chronic underfunding has limited the ability of centers to capitalize on opportunities to revitalize rural areas. A first step to address this problem is for this Subcommittee to appropriate \$8.5 million in this year's appropriations bill and maintain the President's funding for research on the economic impact of cooperatives.

Rural Cooperative Development Grants—Revitalizing Rural Economies

Cooperatives are businesses owned and controlled by the people who buy their products or use their services. Tens of thousands of cooperatives in this country range in size from small storefronts to Fortune 500 companies. Credit unions, electric cooperatives, telephone co-ops, agricultural cooperatives, purchasing cooperatives, and worker cooperatives all serve the needs of millions of members.

Cooperatives represent a flexible business model that can be developed by the community to address its economic needs. Co-ops provide an opportunity for entrepreneurial ideas to become reality. Since members own the cooperative, they participate in the earnings of the cooperative. Rather than leaving the community, patronage refunds—money paid to members based on their use in the cooperative—remains, refueling the economy as members use their refunds to purchase goods locally.

The Rural Cooperative Development Grants program funds the establishment and operation of centers for rural cooperative development to improve economic conditions in rural areas. Grants are competitive, require a 25 percent non-Federal match in most cases, and can be provided to nonprofits or institutions of higher education. For the past few years, USDA has funded only half of all applications received due to budget constraints. The program is authorized at \$50 million.

Cooperative development centers are on the front lines of efforts to revitalize struggling rural economies. They use Rural Cooperative Development Grants to conduct feasibility studies, develop business plans, launch new businesses, and provide

education and training to help ensure the success of these businesses. Through CooperationWorks!, a national organization of more than 20 centers, centers share their knowledge and experience. This network allows centers to maximize resources, avoid duplication and bring the greatest benefit to their communities.

The work of the centers translates into jobs and money in these rural communities. Since the 1990s, the centers have helped start or expand almost 400 cooperative businesses with more than 47,000 members, creating more than 5,800 new rural jobs in virtually every sector of the economy, including energy, housing, agriculture, forestry, food, senior and childcare services, and health care. Investment in these cooperatives exceeds \$900 million.

The Need for Cooperative Development

Cooperative development centers address a growing need. Rural areas in this country, especially in the Midwest, have not benefited from the recent economic expansion. This has worsened an outmigration problem that has ravaged the center of our country over the last few years.

For example, despite 3 years of economic expansion, 1.5 million people were added to the poverty rolls in the Midwest between 2001 and 2004. In all non-metropolitan areas, the poverty rate has remained stuck at 14.2 percent despite the economic recovery.

With the help of RCDG grants, cooperative development centers are working with communities to create economic sustainability. For example, the Georgia Cooperative Development Center helped 27 local farmers create a co-op to get access to wholesale buyers who had previously denied them business. The Farmers Fresh Food Network now markets to agriculture members, local restaurants and farmers markets and soon plans to provide local schools with fresh produce.

The Missouri Farmers Union Family Farm Opportunity Center helped families turn seemingly profitless land into a sustainable business by forming a co-op to mill their trees into high quality boards. Not only are they practicing sustainable development with the project but the estimated return to the community could jump from \$35 million to \$3.4 billion.

The centers also respond to communities in crises, such as those devastated by Katrina. The Federation of Southern Cooperatives and the Mississippi Association of Cooperatives have been working with farmers to stabilize farms and homes destroyed by the storm, to provide shelter, basic supplies and financial assistance. They are also working long term to train people at their facilities and create cooperatives that address basic economic needs of these hard-hit communities, such as housing.

The common thread through these stories is economic sustainability and revitalization. Substantial amounts of money generated by these cooperatives are being put back into the local economy by members.

Cooperative Research—Filling a Gap

The number of jobs and other data collected by the cooperative development centers and the success stories indicate that cooperatives have great potential to address many of the problems facing rural America. There is a serious gap, however, in the information about cooperatives. Though economic data was collected on cooperatives many years ago, there has been no comprehensive data collection effort to find out the impact of all types of cooperatives on the United States and regional economies.

The President's budget this year includes \$495,000 for research on the economic impact of cooperatives. The funding is for a cooperative research agreement between USDA and a qualified academic institution to direct research on the national economic impact of cooperatives. The research can assess how cooperatives can address emerging economic development needs in all sectors of the economy. The research funded for fiscal year 2007 will build on the research currently underway on the economic impact of all types of cooperatives. In addition, this research is essential to assess the impact and cost effectiveness of the Federal program on efforts to revitalize rural economies.

The limited studies available indicate the potential is significant for cooperatives to address economic needs. According to the National Co-op Month Planning Committee's "2005 Snapshot," a quick survey of co-ops, annual revenues for cooperatives are in excess of \$211.9 billion. In Wisconsin, a study funded by USDA found cooperatives supported close to 30,000 full time jobs. The South Dakota Rural Electric Association found that the electric co-ops there generated 800 new jobs and \$11 million in economic development over a 5 year period. The Alabama Credit Union League found that their State's credit unions generated 8,777 jobs, \$288 million in household income and \$24.1 million in tax receipts.

These types of studies need to be replicated on a nationwide basis for all types of cooperatives. This country needs data such as:

- The number of jobs created by cooperatives both directly and indirectly.
- The level of economic activity created by cooperatives.
- The tax revenue generated by the level of economic activity.
- A definitive census on the number of cooperatives and the types of good and services that are being offered.
- The amount of patronage dividends that are returned to the members from their cooperatives.
- The extent of the economic and social benefit where cooperatives can meet the needs of communities that are not adequately met by other types of businesses.

As Liz Bailey, Executive Director of the Cooperative Development Fund noted:

We all know that there is a basic lack of understanding about cooperatives in all levels of government, in the business community, in the academic world, in the philanthropic world and among the general public. Too few understand how cooperatives function and the role they play in the Nation's economy. *We all use anecdotal stories to tell of successful cooperative enterprises, but we don't have access to the kind of aggregated economic data that is routinely used by economic and business analysts to map U.S. economic activity and interpret the data for those who make or influence public policy.* Government, through its support of university research, has traditionally been the source of this kind of basic research . . . It's also important to have data that is continually updated. It can't be a one time snapshot . . . it's data that needs to be tracked and reported on a regular basis. (emphasis added) Testimony of Liz Bailey, USDA Public Meeting on Cooperative Research Agenda, September 27, 2005

Chronic Underfunding Limits Opportunities

The need for rural economic development and cooperative development is clear. Congress recognized the need when it developed the program:

The Managers intend to target the limited funds available for the Rural Cooperative Development Grant program on cooperative development centers that operate on a regional or statewide basis. By focusing this grant program on regional centers rather than on small local projects, the Committee hopes *to link cooperatives from different communities and different sectors of the economy to strengthen the cooperative movement as a whole.* (emphasis added) Federal Agriculture Improvement and Reform Act of 1996, Conf.Rep., p. 432

One of the ways Congress tried “to strengthen the cooperative movement as a whole” with the program was to “emphasiz[e] job creation in rural areas through the development of rural cooperatives, value added processing, and rural businesses.” (Conf.Rep., p. 431) The centers provide a cost effective and efficient way to deliver technical assistance that creates businesses, jobs and opportunities. But the program's funding has not kept up with the demand, which limits both the ability of current centers to provide assistance to create jobs and the development of new centers to ensure national coverage.

Last year, for example, many projects that could have created jobs and economic opportunities were denied funding. Centers with proven track records, with business development expertise, were turned down. Though the program serves more than 40 States, the program was intended to cover the entire country. More funding is needed to ensure that all States are served by a center that can address the economic and entrepreneurial needs of the area.

Private dollars also go into cooperative development. But these funds struggle to meet the need as well. The Cooperative Development Fund's Mutual Service Cooperative Fund, which makes grants for feasibility studies, educational programming and technical assistance projects, knows how great the demand for dollars is. In 2004, with \$90,000 in available funds for grants, CDF received 44 applications requesting a total of \$980,000. In 2005 the trustees narrowed the focus of the Fund and still received over \$300,000 in proposals, 3 times the funds available.

Cooperative development centers also would benefit from multi-year funding. Many times efforts to develop a business are halted due to a lack of commitment for funds in the future. Since businesses typically take at least 3 years from concept to operation, there is great need to have funds available during that period.

The program's recent funding history shows little to no increase in the program over the past 5 years despite the continued growing demand.

- Fiscal year 2006—\$6.5 million (includes \$500,000 for research agreement)
- Fiscal year 2005—\$6 million
- Fiscal year 2004—\$6.5 million
- Fiscal year 2003—\$6.5 million

—Fiscal year 2002—\$5.25 million

This funding also is only a small portion of the program's authorized level of \$50 million. The program's sponsors intended there to be enough funds to address the rural economic needs of the whole country.

Request for Increased Appropriation for RCDG

The President's fiscal year 2007 budget includes \$7 million for the RCDG program, including \$495,000 for research on the economic impact of cooperatives. We seek an increase in funding to at least \$8.5 million, which would help provide funding for four to six additional centers and help fulfill the goal of serving all States. The \$8.5 million would also ensure that sufficient funds are available to help build the research capacity to provide policymakers with information to assess the value of RCDG and how cooperatives can address economic issues facing the country. This would be a first step toward achieving the goals Congress intended for the program. Thank you for the opportunity to submit testimony on this important topic.

PREPARED STATEMENT OF THE NATIONAL COMMODITY SUPPLEMENTAL FOOD
PROGRAM ASSOCIATION

Mr. Chairman and Subcommittee members, I am Tim Robertson, President of the National Commodity Supplemental Food Program Association (NCSFPA). Thank you for this opportunity to present information regarding the Commodity Supplemental Food Program (CSFP).

CSFP was our Nation's first food assistance effort with monthly food packages designed to provide protein, calcium, iron, and vitamins A and C. CSFP began in 1969 for low-income mothers and children, preceding the Special Supplemental Nutrition Program for Women, Infants, and Children known as WIC. CSFP pilot programs in 1983 added low-income seniors to the list of eligible participants and they now comprise nearly 90 percent of all participants.

CSFP is a unique Federal/State and public/private effort. The USDA purchases specific nutrient-rich foods at wholesale prices for distribution. State agencies such as the department of health, agriculture or education provide administration and oversight. These agency's contract with community and faith based organizations to warehouse and distribute food, certify eligibility and educate participants. The local organizations build broad collaboration among non-profits, health units, and area agencies on aging so that seniors and others can quickly qualify for and receive their monthly supplemental food package along with nutrition education to improve their health and quality of life. This unique public/private partnership reaches even homebound seniors with vital nutrition.

The foods provided through CSFP includes canned fruits and vegetables, juices, meats, fish, peanut butter, cereals and grain products, cheese, and other dairy products. The availability of these goods increases healthy food consumption among these low-income populations.

The CSFP is also an important "market" for commodities supported under various farm programs, as well as an increasingly important instrument in meeting the nutritional and dietary needs of special low-income populations.

In fiscal year 2006, the CSFP provided services through 150 non-profit community and faith-based organizations at over 1,800 sites located in 32 States, the District of Columbia, and two Indian reservations (Red Lake, Minnesota and Oglala Sioux, South Dakota). On behalf of those organizations the NCSFPA would like to express our concern and disappointment regarding the reduction of available CSFP resources for fiscal year 2006.

—Congress in the fiscal year 2006 Agricultural Appropriations bill strongly encouraged USDA to make every effort to maintain the fiscal year 2005 caseload by making full use of CSFP inventory and carryover from preceding years and to access all available resources from bonus commodity holdings and CCC stocks.

—It is not clear from the "CSFP 2006 Final Caseload Assignments" memorandum whether USDA has made full use of all available resources, especially since States were instructed to cut program participation by 6.26 percent (32,902 seniors nationally).

—The prospect of seniors not receiving needed CSFP food in a year when USDA has forecast in excess of \$35.4 million in carryover inventory at the end of the fiscal year 2006 is disturbing. Clearly these inventories could and should be used to serve the full fiscal year 2006 caseload.

—Other resources such as \$4 million included for CSFP Gulf Coast operators in the defense bill, and full use of Commodity Credit Corporation (CCC) inventory

appears not to have been factored into the CSFP 2006 final caseload assignments.

—At a time when many Americans must choose between food or their medicine, utilities, and other basic expenses, the Federal Government should not be reducing benefits for our most vulnerable citizens. We respectfully request your review of USDA's adherence to your directive in the Agriculture Appropriation Bill.

CSFP's 36 years of service stands as testimony to the power of partnerships among community and faith-based organizations, farmers, private industry and government agencies. The CSFP offers a unique combination of unparalleled advantages.

—The CSFP specifically targets our Nation's most nutritionally vulnerable populations: seniors and young children.

—The CSFP provides a monthly selection of food packages tailored to the nutritional needs of the population served. Eligible participants are guaranteed [by law] a certain level of nutritional assistance every month in addition to nutrition education regarding how to prepare and incorporate these foods into their diets.

—The CSFP purchases foods at wholesale prices, which directly supports the farming community. The cost of the average food package for fiscal year 2006 is \$15.04, but the retail value is approximately \$50.00.

—The CSFP involves the entire community in confronting the problem of hunger. There are thousands of volunteers as well as many private companies who donate money, equipment, and most importantly time and effort to deliver food to needy and homebound seniors. These volunteers not only bring food but companionship and other assistance to seniors who might have no other source of support. (See Attachment 1)

The White House proposed budget for fiscal year 2007, released on Monday, February 6, 2006, would eliminate the CSFP completely, and would eliminate all of this effort and support of those 36 years. This proposal has shocked the entire CSFP community as well as legislators, anti-hunger and senior service organizations and concerned citizens. America's Second Harvest, AARP, FRAC, and others have all voiced their opposition to the elimination of CSFP. It is unconscionable to eliminate benefits for some of our most vulnerable citizens and to eliminate hope of those waiting for participation in the program. It is the cruelest cut for the greatest generation.

In a recent CSFP survey, more than half of seniors living alone reported an income of less than \$750 per month. Of those respondents from two-person households, more than half reported an income of less than \$1,000 per month. Fewer than 25 percent reported being enrolled in the Food Stamp Program. Over 50 percent said they ran out of food during the month. Also, close to 70 percent senior respondents say they use money for medical bills not food.

The Senate Agriculture Appropriations Subcommittee has consistently supported CSFP, acknowledging it as a cost-effective way of providing nutritious supplemental foods. This year, your support is needed urgently to provide adequate resources for the 536,196 mothers, children and seniors currently receiving benefits, 20,500 low-income participants currently waiting in five new States and 154,259 seniors waiting in current States for this vital nutrition program.

There is no discernible plan to address the long-term needs of those affected by the elimination of CSFP. The proposed transition plan provides that seniors being removed from CSFP will be provided a Food Stamp Program (FSP) benefit of \$20 per month for up to 6 months, or until the participant actually enrolls in the FSP, whichever comes first. As referenced earlier, CSFP provides a food package that costs USDA about \$15 per month. It has a retail value of approximately \$50. How does someone use \$20 to purchase approximately \$50 worth of nutritious foods? What happens at the end of 6 months? Simply transferring seniors to the FSP is an inadequate solution. It is essential for seniors to have access to services which they

feel is offered with dignity and respect. Many will outright reject the idea of applying for FSP benefits. According to the ERS Evaluation of the USDA Elderly Nutrition Demonstrations: Volume I:

"The Commodity alternative benefit demonstration in North Carolina was popular both among new applicants and among existing FSP participants. Clients eligible for low FSP benefits were more likely to get the commodity packages, which had a retail value substantially greater than their FSP benefits". In particular, seniors described the anxiety of using FSP benefits in stores, where they felt shoppers and store clerks looked down on them. The demonstrations attracted a particularly large

share of clients eligible for the \$10 benefit because the retail value of the commodity packages was worth \$60–\$70”.

Depending on their non-cash assets, seniors may not qualify for a FSP benefit level equivalent to the CSFP food package. Seniors receiving the minimum benefit would not be eligible for the \$20/month transitional benefit. The 25 percent of current CSFP participants who already enrolled in the FSP will lose the benefits of CSFP and those benefits will not be replaced at a time when they are struggling to make ends meet. CSFP and FSP are supplemental programs. They work together to make up the shortfall that many of our seniors are facing each month. Both programs need to be available as part of the “safety net” for our low-income participants.

USDA reports that the average FSP benefit paid to senior citizens is about \$65 per month, but in reality, many senior citizens receive only the minimum monthly benefit of \$10, which has not been updated since 1975. USDA figures also report households rather than individual participants and include households with disabled family members.

The proposed transition plan for women, infants and children enrolled in the CSFP is to transfer them to WIC. However, due to increasing coordination between WIC and CSFP at the State and community levels, the number of WIC-eligible mothers and children enrolled in the CSFP is steadily declining. In some States, this figure is less than 2 percent of all enrolled women and children, eradicating supplemental food and nutrition benefits for that population as well. Further, the majority of women and children receiving CSFP food are 6 month postpartum women and 5 year old children who are not eligible for the WIC Program.

The National Commodity Supplemental Food Program Association requests the Senate Agriculture Appropriations Subcommittee take the appropriate actions to fund CSFP for fiscal year 2007 at \$160 million as illustrated below:

(Dollars in millions)

Description	People (caseload)	Funding
Maintain fiscal year 2005 Caseload Requirements in Existing States	536,196	\$128.0
Five New States (AK, DE, OK, NJ, UT)	20,500	3.7
Current States Senior Needs	154,259	27.6
USDA Costs for Procuring Commodities .....	.....	.7
Total CSFP Request for fiscal year 2007	710,955	160.0

With the aging of America, CSFP must be an integral part of USDA Senior Nutrition Policy as well as comprehensive plans to support the productivity, health, independence, and quality of life for America’s seniors.

Measures to show the positive outcomes of nutrition assistance to seniors must be strengthened. A 1997 report by the National Policy and Resource Center on Nutrition and Aging at Florida International University, Miami—Elder Insecurities: Poverty, Hunger, and Malnutrition indicated that malnourished elderly patients experience 2 to 20 times more medical complications, have up to 100 percent longer hospital stays, and incurs hospital costs \$2,000 to \$10,000 higher per stay. Proper nutrition promotes health, treats chronic disease, decreases hospital length of stay and saves health care dollars.

Rather than eliminating the program, the NCSFPA recommends the following initiatives to strengthen CSFP:

- Develop a formal evaluation process to demonstrate individual and program outcomes of CSFP with Federal, State, and local CSFP managers included in the study design.
- Restore financial guidelines for seniors to the original level of 185 percent of poverty.
- Set “greatest need within a project area” as the priority for service or let each State set its priority for service under a plan approved by the Secretary of Agriculture.
- Support and expand the program in those States that have demonstrated an interest in the CSFP, including the 5 States that already have USDA-approved plans to operate CSFP (Arkansas, Delaware, New Jersey, Oklahoma, and Utah) or that have demonstrated a willingness to continue and expand current CSFP services.

This program continues with committed grassroots operators and dedicated volunteers. CSFP’s mission is to provide quality nutrition assistance economically, effi-

ciently, and responsibly always keeping the needs and dignity of our participants first. We commend the Food and Nutrition Service of the Department of Agriculture and particularly the Food Distribution Division for their continued innovations to strengthen the quality of the food package and streamline administration. We also remain committed to providing quality services in collaboration with the community organizations and volunteers that contribute more than 50 percent of the resources used in providing these services.

ATTACHMENT 1.—NATIONAL CSFP ASSOCIATION ADMINISTRATIVE EXPENSE/VALUE SURVEY FOR FISCAL YEAR 2005

Programs	USDA Reim- bursed Cash	Not Reimbursed by USDA Cash	CSFP Expendi- tures Cash	Goods & Services donated to agen- cy Value	Volunteer Labor Hours Value	Annual Total Pro- gram Value	Percent Paid by USDA	Extra Goods do- nated to CSFP participants
New Hampshire	\$425,689	\$16,902	\$442,591	.....	\$117,370	\$559,961	76	\$1,668
New York	1,896,086	85,500	1,981,586	\$20,000	9,126	2,010,712	94	10,425
Vermont	257,950	318,327	576,277	1,200	96,578	674,055	38	.....
Washington DC	449,139	1,500,000	1,949,139	1,600,000	12,513	3,561,652	13	.....
Pennsylvania	834,444	147,234	981,678	332,604	234,310	1,548,592	54	278,303
Kentucky	912,417	35,538	947,955	5,000	376,799	1,329,754	69	.....
Mississippi	402,779	.....	402,779	.....	189,540	592,319	68	.....
North Carolina	79,849	40,000	119,849	.....	3,438	123,287	65	20,000
South Carolina	215,880	113,827	329,707	66,000	98,456	494,163	44	14,500
Tennessee	827,805	.....	827,805	.....	.....	827,805	100	.....
Illinois	903,174	3,000	906,174	.....	341,172	1,247,346	72	.....
Indiana	264,831	32,020	296,851	19,440	369,603	685,894	39	100
Michigan	4,535,044	2,237,705	6,772,749	296,000	3,696,683	10,765,433	42	577,199
Minnesota	806,379	277,890	1,084,269	28,000	798,525	1,910,794	42	497,700
Red Lake, MN	5,937	5,937	11,874	.....	.....	11,874	50	.....
Ohio	713,807	250,997	964,804	54,800	442,629	1,462,233	49	166,590
Wisconsin	287,026	15,000	302,026	.....	305,370	607,396	47	79,797
Louisiana	4,672,088	.....	4,672,088	377,479	1,483,387	6,532,955	72	2,500
New Mexico	1,120,106	195,000	1,315,106	78,719	231,800	1,625,625	69	1,208,353
Texas	706,534	85,000	791,534	1,500	115,830	908,864	78	12,000
Colorado	1,196,217	425,963	1,622,180	13,375	174,254	1,809,809	66	650,425
Iowa	228,563	286,543	515,106	.....	67,247	582,353	39	108,510
Kansas	342,332	69,019	411,351	329,960	255,881	997,192	34	81,424
Missouri	539,700	109,072	648,772	2,000	398,455	1,049,227	51	.....
Montana	81,528	29,649	411,177	115,929	515,022	1,042,128	37	37,800
Nebraska	761,247	116,207	877,454	46,449	276,044	1,199,947	63	74,960
North Dakota	161,155	43,208	204,363	.....	192,594	396,957	41	1,695
South Dakota	161,911	5,005	166,916	36,875	87,785	291,576	56	12,480
Oglala Sioux, SD	37,779	.....	37,779	.....	.....	37,779	100	.....
Alaska	138,798	.....	138,798	.....	35,100	173,898	80	.....
Arizona	968,788	640,636	1,609,424	442,950	1,030,066	3,082,440	31	655,000
California	3,095,354	1,036,699	4,132,053	242,424	3,532,078	7,906,555	39	588,868
Nevada	401,133	16,000	417,133	2,000	1,123	420,256	95	4,000
Oregon	72,603	.....	72,603	.....	.....	72,603	100	.....

ATTACHMENT 1.—NATIONAL CSFP ASSOCIATION ADMINISTRATIVE EXPENSE/VALUE SURVEY FOR FISCAL YEAR 2005—Continued

Programs	USDA Reim- bursed Cash	Not Reimbursed by USDA Cash	CSFP Expendi- tures Cash	Goods & Services donated to agen- cy Value	Volunteer Labor Hours Value	Annual Total Pro- gram Value	Percent Paid by USDA	Extra Goods do- nated to CSFP participants
Washington	134,426	31,000	165,426	12,600	6,318	184,344	73	.....
Grand Total	28,938,498	8,168,878	37,107,376	4,125,304	15,495,096	56,727,776	51	5,084,297

PREPARED STATEMENT OF THE NATIONAL TURFGRASS EVALUATION PROGRAM

Mr. Chairman and Members of the Subcommittee: On behalf of the National Turfgrass Evaluation Program (NTEP), I appreciate the opportunity to present to you the turfgrass industry's need and justification for continuation of the \$490,000 appropriated in the fiscal year 2006 budget for turfgrass research within the Agricultural Research Service (ARS) at Beltsville, MD. Secondly, we ask that the committee support and accept the \$1,880,000 for Drought Mitigation in the President's budget request. This funding will be used by ARS to conduct turfgrass water conservation and salinity research at Phoenix, AZ and Riverside, CA. Thirdly, to implement the most critical needs within the National Turfgrass Research Initiative, we are asking for five individual research positions of \$450,000 each. This amount is being requested by senators in the states where the positions are located. We appreciate the support of research funding at Beaver, WV (\$330,000) provided by the committee in fiscal year 2006 and request that funding be restored in fiscal year 2007. All funding provided by the Committee is requested to go directly to ARS/Beltsville, not the industry per se.

Restoration of funding for the existing ARS Scientist Position and related support activities at Beltsville, MD (\$490,000)

NTEP and the turfgrass industry are requesting the Subcommittee's support for \$490,000 to continue funding for the full-time scientist staff position within the USDA, ARS at Beltsville, MD, focusing on turfgrass research, that was provided by the Committee in the fiscal year 2006 budget, and in the four previous budget cycles. We consider this funding our Congressional "baseline", i.e. that funding which is central to and critical for the mission of the National Turfgrass Research Initiative. We are very grateful for this support and hope the Committee will continue this funding.

Turfgrass provides multiple benefits to society including child safety on athletic fields, environmental protection of groundwater, reduction of silt and other contaminants in runoff, and green space in home lawns, parks and golf courses. Therefore, by cooperating with NTEP, USDA has a unique opportunity to take positive action in support of the turfgrass industry. While the vast majority of the USDA's funds have been and will continue to be directed toward traditional "food and fiber" segments of U.S. agriculture, it is important to note that turfgrasses (e.g., sod production) are defined as agriculture in the Farm Bill and by many other departments and agencies. It should also be noted that the turfgrass industry is the fastest growing segment of U.S. agriculture, while it receives essentially no federal support. There are no subsidy programs for turfgrass, nor are any desired.

For the past 70 years, the USDA's support for the turfgrass industry has been modest at best. The turfgrass industry's rapid growth, importance to our urban environments, and impact on our daily lives warrant more commitment and support from USDA.

A new turfgrass research scientist position within USDA/ARS was created by Congress in the fiscal year 2001 budget. Additional funding was added in fiscal year 2002 with the total at \$490,000. A research scientist was hired, and is now working at the ARS, Beltsville, MD center. A research plan was developed and approved by ARS. This scientist has used the funding for a full-time technician, equipment and supplies to initiate the research plan and for collaborative research with universities. We have an excellent scientist in place, and he is making good progress in establishing a solid program. At this point, losing the funding for the position would be devastating to the turf industry, as significant research has begun.

Support the President's budget request for Drought Mitigation research as proposed by ARS (See ARS Explanatory Notes, pages 10-82, 10-83) (\$1,880,000)

The turfgrass industry is excited that for the first time, the President's budget contains funding for turfgrass research within ARS. This funding will be used to hire scientists in two very important locations, Riverside, CA and Phoenix, AZ, focusing on water conservation, wastewater reuse and salinity research. These issues are the most critical research needs for the survival of the turf industry. Following is a brief description of the research that ARS will conduct with this funding:

ARS will:

Develop Technology and Management Systems to Use Non-Potable Water to Reduce Agriculture's Vulnerability to Drought (\$1,880,000 Total).—In the process, ARS will develop systems to safely reuse wastewater and low-quality water as a means of irrigating agricultural, horticultural and turf-based enterprises in an environmentally and economically sustainable manner

As noted in USDA's Explanatory Notes accompanying this budget request, this funding will be directed to the following two critical locations:

Phoenix, AZ, (\$940,000)

The U.S. Water Conservation Lab in Phoenix will determine the on-site impacts and movement in the air, soil, plant, and ground water of biological and chemical substances contained in treated and untreated waste water used for irrigation of turfgrass. They will also develop irrigation technologies and management systems to mitigate the impact of elevated levels of these compounds and nutrients when wastewater is used in the production of turf and specialty crops.

Riverside, CA, (\$940,000)

This research will be conducted at the world-renowned U.S. Salinity Lab. The Riverside lab will focus on the development of new irrigation technologies and systems to either mitigate or manage the effect of saline irrigation on the production of turf and specialty crops.

Request funding of Congressional earmarks for five ARS scientist positions at four ARS installations @ \$450,000 each (Total: \$2,250,000)

The turfgrass industry also requests that the Subcommittee appropriate an additional \$2,250,000 for the National Turfgrass Research Initiative. This Initiative has been developed by USDA/ARS in partnership with the turfgrass industry. We are asking for five priority research positions at four locations across the United States. These five positions address the most pressing research needs, namely water use/efficiency and environmental issues. \$450,000 is being requested for each location.

The USDA needs to initiate and maintain ongoing research on turfgrass development and improvement for the following reasons:

The value of the turfgrass industry in the United States is \$40 billion annually. There are an estimated 50,000,000 acres of turfgrass in the United States. Turfgrass is the number one or two agricultural crop in value and acreage in many States (e.g., MD, PA, FL, NJ, NC).

As our society becomes more urbanized, the acreage of turfgrass will increase significantly. In addition, State and local municipalities are requiring the reduction of water, pesticides and fertilizers on turfgrass. However, demand on recreational facilities will increase while these facilities will still be required to provide safe turfgrass surfaces.

Currently, the industry itself spends about \$10 million annually on applied and proprietary turfgrass research. However, private and university research programs do not have the time nor the resources to conduct basic research and to identify completely new sources of beneficial genes for stress tolerance. ARS turfgrass scientists will enhance the ongoing research currently underway in the public and private sectors. Because of its mission to conduct the Nation's research for agricultural commodities, ARS is the proper delivery system for this research.

Water management is a key component of healthy turf and has direct impact on nutrient and pesticide losses into the environment. Increasing demands and competition for potable water make it necessary to use water more efficiently. Also, drought situations in many regions have limited the water available and, therefore, have severely impacted the turf industry as well as homeowners and young athletes. Therefore, new and improved technologies are needed to monitor turf stresses and to schedule irrigation to achieve the desired quality. Technologies are also needed to more efficiently and uniformly irrigate turfgrasses. Drought tolerant grasses need to be developed. In addition, to increase water available for irrigation, waste water (treated and untreated) must be utilized. Some of these waste waters contain contaminants such as pathogens, heavy metals, and organic compounds. The movement and accumulation of these contaminants in the environment must be determined.

USDA conducted significant turfgrass research from 1920–1988. However, since 1988, no full-time scientist has been employed by USDA, Agricultural Research Service (ARS) to conduct turfgrass research specifically, until the recently appropriated funds became available.

ARS and the turfgrass industry enjoy a special, collaborative relationship, and have even entered into a cooperative Memorandum of Understanding (MOU). The turfgrass industry has met on numerous occasions with USDA/ARS officials to discuss the new turfgrass scientist positions, necessary facilities, and future research opportunities. In January 2002, ARS held a customer workshop to gain valuable input from turfgrass researchers, golf course superintendents, sod producers, lawn care operators, athletic field managers and others on the research needs of the turfgrass industry. As a result of the workshop, ARS and the turfgrass industry have developed the National Turfgrass Research Initiative. The highlights of this strategy are as follows:

ARS, as the lead agency at USDA for this initiative, has graciously devoted a significant amount of time to the effort. Like the industry, ARS is in this research en-

deavor for the long-term. To ARS' credit, the agency has committed staff, planning and technical resources to this effort. This year is the first time ARS has been able to include some funding in the President's budget for the Turfgrass Research Initiative. However, there are so many issues and needs, that the industry is desperate for answers. Thus, to address the critical research needs, the industry is left with no alternative but to come directly to Congress for assistance through the appropriations process.

The role and leadership of the Federal Government and USDA in this research are justifiable and grounded in solid public policy rationale. ARS is poised and prepared to work with the turfgrass industry in this major research initiative. However, ARS needs additional resources to undertake this mission.

The turfgrass industry is very excited about this new proposal and wholeheartedly supports the efforts of ARS. Since the customers at the workshop identified turfgrass genetics/germplasm and water quality/use as their top priority areas for ARS research, for fiscal year 2007, the turfgrass industry requests that the following positions be established within USDA/ARS:

Position 1: Component II: Germplasm: Molecular Biologist: Southwest—Lubbock, TX	\$450,000
Position 2: Component I: Water: Agricultural Engineer—Irrigation: Transition Zone—Florence, SC	450,000
Position 3: Component IV: Environment: Agricultural Engineer—Fate & Transport: Northeast—University Park, PA	450,000
Position 4: Component III: Pest Management: Weed Scientist: Northeast—University Park, PA	450,000
Position 5: Component II: Germplasm: Geneticist—Biodiversity: Upper West—Logan, UT	50,000
Total	2,250,000

For this research we propose an ARS-University partnership, with funding allocated to ARS for in-house research as well as in cooperation with university partners. For each of the individual scientist positions, we are requesting \$300,000 for each ARS scientist position with an additional \$150,000 attached to each position to be distributed to university partners, for a total of \$450,000 per position. We are also asking that the funding be directed to ARS and then distributed by ARS to those university partners selected by ARS and industry representatives.

Request restoration of funding for the ARS lab in Beaver, WV that was appropriated in fiscal year 2006 (\$330,000)

In the last 2 fiscal years, the Subcommittee has generously provided funding for turfgrass research at the Appalachian Farming Systems Research Center in Beaver, WV. The Subcommittee allocated \$150,000 in fiscal year 2005 and an additional \$180,000 in fiscal year 2006, bringing the total to \$330,000. As the Beaver lab has expertise in soils research, the turf industry has embraced this funding and the research possibilities. The turf industry is now working with the lab to construct a research program on soil issues that affect turfgrass production. This research fits very nicely within the framework of the National Turfgrass Research Initiative. Therefore, we appreciate the support of the Subcommittee for this new funding in the last 2 fiscal years and ask for your continued support of that funding in fiscal year 2007.

In addition, the Committee should be receiving Member requests for funding of each of the five positions described above. We appreciate your strong consideration of each individual member request for the turfgrass research position in his or her respective state.

In conclusion, on behalf of the National Turfgrass Evaluation Program and the turfgrass industry across America, I respectfully request that the Subcommittee continue the funding appropriated in fiscal year 2006 for Beltsville, MD, (\$490,000) and Beaver, WV (\$330,000) within the Agricultural Research Service. I also request that the committee support the President's budget request of \$1,880,000 for Drought Mitigation. Finally, I request that the Subcommittee appropriate an additional \$2,250,000 for five new turfgrass scientist positions around the country, with \$450,000 provided for each location.

Thank you very much for your assistance and support.

PREPARED STATEMENT OF THE NATIONAL FISH AND WILDLIFE FOUNDATION

Mr. Chairman and Members of the Subcommittee: I appreciate the opportunity to submit testimony regarding the fiscal year 2007 funding request for the National Fish and Wildlife Foundation (Foundation). Included in this testimony is a summary

of our history and fiscal year 2005 accomplishments, as well as the new and innovative programs we hope to accomplish with the funding provided by this Committee.

Congress established the Foundation 22 years ago, and since that time the Foundation's vision for more healthy and abundant populations of fish, wildlife and plants has flourished through the creation of numerous valuable partnerships. The breadth of our partnerships is highlighted through our active agreements with 14 Federal agencies, as well as various corporations, foundations and individual grantees. Through these unique arrangements, we are able to leverage Federal funds, bring agencies and industry together and produce tangible, measurable results. Our history of collaboration has given way to programs and initiatives such as the North American Waterfowl Management Plan, the Neotropical Migratory Bird Conservation Program, the Chesapeake Bay Small Watershed Grants Program and the Pulling Together Initiative. With the support of the Committee in fiscal year 2007, we can continue to uphold our mission of enriching fish, wildlife and the habitat on which they depend.

Federal dollars appropriated by this Committee allow the Foundation to be highly successful in assisting the Natural Resources Conservation Service (NRCS) in accomplishing its mission to help people conserve, maintain and improve our natural resources and environment. Whether it involves farm, range or grassland conservation, species management or conservation education, the Foundation strategically invests the Federal funds entrusted to us in sound projects. The Foundation respectfully requests that this Subcommittee fund the Foundation at \$4 million through the U.S. Natural Resources Conservation Service Appropriation.

This request would allow the Foundation to expand its highly successful grant program to better assist NRCS in maximizing private land conservation.

Since the grants partnership began in 2000, the Foundation has received \$18 million in NRCS Federal funds (\$3 million per fiscal year), which it has dedicated to a matching grant program focused on private land conservation. The Foundation has supported over 400 projects in 49 states by leveraging the \$18 million in NRCS funds into more than \$75 million in on-the-ground conservation. These projects have led to the direct restoration of more than 200,000 acres of farmland and rangeland and 775 miles of streams and rivers. In fiscal year 2005, the Foundation received \$3 million in NRCS Federal funds, which it leveraged into more than \$12 million in on-the-ground conservation. With the funds provided by the Committee in fiscal year 2006, we are on track to successfully continue leveraging NRCS funds to increase on-the-ground conservation benefits.

The Foundation's achievements are based on a competitive grant process where Federal funds are matched by the grantee with non-Federal funds and in-kind services. Grantees include Resource Conservation and Development Areas, conservation districts, universities and non-profit organizations who partner with farmers and ranchers to support conservation efforts on private land. The Foundation also works to further maximize Federal funds by providing private funds through the generosity of our growing number of corporate and foundation partners. These funds are in addition to the non-Federal funds that are provided by the Foundation's grantees. In the Foundation's partnership with NRCS, Federal funds have been supplemented with funding from Shell Oil Company, FMC Corporation, Anheuser-Busch Companies, Inc., Southern Company, Summer T. McKnight Foundation, Charles Stewart Mott Foundation, William Penn Foundation and the David and Lucile Packard Foundation. The Foundation is also pleased to report that the Kellogg Foundation has agreed to a multi-year partnership beginning in fiscal year 2006 to further the Foundation's agriculture conservation work.

Working Landscapes.—Through our partnership, the Foundation works with NRCS to identify and fund projects that have strong support in affected agricultural and rural communities. We place our highest priority on projects integrating conservation practices on ongoing agricultural, ranching and forestry operations with the goal of improving the ecological health of working lands. We fund partners and provide expertise by engaging watershed experts, ranchers, foresters, farmers, local governments and non-profits to undertake on-the-ground private land activities with willing landowners. Through these efforts, the Foundation has helped to reduce agricultural runoff, remove invasive species and restore native ecosystems.

Conserving Fish, Wildlife and Plants.—With our NRCS dollars, the Foundation funds projects that directly benefit diverse fish and wildlife species, including salmon in the West, migratory birds in the Midwest and grassland birds in the South. Habitat for native fish has been restored on private lands throughout the United States through vegetative planting, streambank stabilization, livestock fencing and nutrient reduction efforts. In addition to improving water quality, efforts have been undertaken by our grantees to reduce water loss caused by invasive species or from

outdated irrigation systems. By reducing the water taken from rivers, there is less chance that drought will negatively impact aquatic life.

We also measure our success, in part, by preventing the listing of species under the Endangered Species Act and by stabilizing and hopefully moving others off the list. Some species that have received support through our NRCS grant program include salmonids, golden-cheeked warblers, black-capped vireos, Southwestern willow flycatchers, whooping cranes, sage grouse, lesser prairie chickens, aplomado falcons, black-tailed prairie dogs, Louisiana black bears, bog turtles, tiger salamanders and Karner blue butterflies. We invest in common sense and innovative cooperative approaches to endangered species, building bridges between the government and the private sector.

Expanding Conservation Education Opportunities.—Our grantees also use our NRCS dollars to expand conservation education opportunities. Of our fiscal year 2005 NRCS partnership grants, over one-fourth contained an environmental education or outreach component. Some of the conservation education projects supported through our NRCS grant program seek to educate farmers and ranchers on conservation practices, while demonstrating how best management practices and wildlife incentives provide both environmental and economic benefits. Other projects have provided training to secondary school teachers on the ecological, economic and cultural benefits of rangeland and farmland conservation.

Special Grant Programs.—In fiscal year 2005, NRCS joined the Foundation's Pulling Together Initiative, a grant program that supports the creation of local cooperative Weed Management Area partnerships. These partnerships bring together local landowners, citizens groups and weed experts to develop and implement strategies for managing weed infestations on public lands, natural areas and private working lands. Through this collaborative program, NRCS staff is able to join invasive species experts from the U.S. Fish and Wildlife Service, USDA-Forest Service, Bureau of Land Management, Animal and Plant Health Inspection Service and the Department of Defense to review and jointly select the most innovative weed management projects. This collaborative model has proven so successful that in late fiscal year 2005, the Foundation launched a new strategically focused grant program targeting the Great Lakes Watershed. The partners in this program include the Environmental Protection Agency, U.S. Fish and Wildlife Service, National Oceanic and Atmospheric Administration and the USDA-Forest Service. The Foundation is currently in discussions with NRCS regarding their formal participation in the program for the next grant cycle.

The Foundation is currently developing two additional Special Grant Programs that will be launched later this year. The purpose of the first grant program is to implement the National Fish Habitat Initiative Action Plan. The National Fish Habitat Initiative is a multi-agency, multi-partner initiative to improve our Nation's aquatic resources. The Foundation's grant program will bring together Federal and non-Federal funds to strategically invest in priority fish habitat grants. The Foundation's second grant program will focus on the Upper Mississippi River Watershed. The program is being launched at the direction of the USDA-Forest Service with the goal of restoring private land streambanks with native trees and grasses. The Foundation is hoping to expand this program into a multi-partnered effort in fiscal year 2007.

Evaluation.—The Foundation has become a leader in evaluation and adaptive management among its peers. The Foundation's goal is to build the capacity of both itself and its partners to undertake more effective evaluation, to assist in both measuring performance and adapting methods and funding strategies for more effective conservation. To address these goals, the Foundation is implementing several evaluation strategies simultaneously. First, the Foundation has instituted new protocols within its application process to provide the measurable indicators needed to evaluate the impacts of our programs. Second, the Foundation has convened discussions among our agencies partners to identify and coordinate potential opportunities for collaboration within evaluation. One of the initial results of these meetings has been an interest in piloting new evaluation indicators, to better articulate the Federal investment for GPRA and PART requirements.

Third, the Foundation has commissioned several third-party evaluations targeting standard methods like culvert removal to full program evaluations to learn where we have been successful and where past methods have not provided the desired impact. As an example, in fiscal year 2006, the Foundation's Chesapeake Bay Small Watershed Grants Program will be evaluated for the first 5 years of grant-making. The evaluation will include 355 projects associated with about \$10.6 million in Federal funds. The Federal legislation accompanying this program included 10-year goals, and this evaluation presents an opportunity to assess the mid-way mark in helping the Foundation and its partners better focus their resources over the next

5 years. To capture the evaluations and lessons learned, the Foundation is taking a fourth key step by developing a new searchable project website where users will be able to query information and learn more about funded projects, including how to adapt projects for higher rates of success.

Continued Need.—The Foundation is uniquely positioned to continue assisting NRCS in implementing beneficial conservation practices on our Nation's farms and ranches by leveraging NRCS's scarce Federal resources to maximize on-the-ground conservation benefits. The Foundation's matching grant program has the flexibility to address many agricultural conservation needs. These include, but are not limited to, increasing instream flow for rivers while continuing to support agricultural irrigation, promoting the recovery of specific threatened or endangered animals on private lands, implementing critical conservation practices on private lands that do not qualify for funding under a Farm Bill program, working with non-traditional partners such as the Amish and Mennonites and by forging broad community-based partnerships. Additional resources are needed in fiscal year 2007 to continue meeting the growing demand for private land conservation, while expanding the participation of NRCS into new multi-partner programs.

Accountability and Grantsmanship.—The Foundation constantly strives to improve the grant making process while maintaining a healthy level of oversight. To improve ease of use for potential applicants, Foundation applications are now completed and reviewed electronically. In early 2006, to further improve efficiency, the Foundation released a revised application, grant contract template and reporting form. Even with these efficiencies, the Foundation still requires strict financial reporting by grantees and has once again received an unqualified audit in fiscal year 2005.

In addition to the evaluation requirements described earlier, all potential grants are subject to a peer review process. This involves five external reviews representing state agencies, Federal agencies, affected industry, environmental non-profits and academics. Before being recommended to the Foundation's Board of Directors, grants are also reviewed internally by staff, including our conservation scientists. The internal review process examines the project's conservation need, technical merit, the support of the local community, the variety of partners and the amount of proposed non-Federal cost share. The Foundation also provides a 30-day notification to the Members of Congress for the congressional district and state in which a grant will be funded, prior to making a funding decision.

Basic Facts About the Foundation.—The Foundation is governed by a 25-member Board of Directors, appointed by the Secretary of the Interior and in consultation with the Secretary of Commerce. At the direction of Congress, the Board operates on a nonpartisan basis. Directors do not receive any financial compensation for service on the Board; in fact, all of our directors make financial contributions to the Foundation. It is a diverse Board, representing the corporate, philanthropic and conservation communities; all with a tenacious commitment to fish and wildlife conservation. I took over the chairmanship in January, after serving on the Board for 10 years. It is an honor to lead such a prestigious board.

The National Fish and Wildlife Foundation continues to be one of, if not the most, cost-effective conservation programs funded in part by the Federal government. Since our inception in 1984 through fiscal year 2005, the Foundation has supported over 8,190 grants and leveraged \$339 million in Federal funds into more than \$1 billion in on-the-ground conservation. None of our Federally appropriated funds are used for lobbying, litigation or the Foundation's administrative expenses. By implementing real-world solutions with the private sector while avoiding regulatory or advocacy activity, our approach is more consistent with this Congress' philosophy than ever before. We are confident that the money you appropriate to the Foundation will continue to make a difference.

PREPARED STATEMENT OF THE NATIONAL ORGANIC COALITION

Chairman Bennett, Ranking Member Kohl, and Members of the Subcommittee: My name is Steven Etka. I am submitting this testimony on behalf of the National Organic Coalition (NOC) to detail our requests for fiscal year 2007 funding for several USDA marketing, research, and conservation programs of importance to organic agriculture.

The National Organic Coalition (NOC) is a national alliance of organizations working to provide a voice for farmers, ranchers, environmentalists, consumers and others involved in organic agriculture. The current members of NOC are the Center for Food Safety, Rural Advancement Foundation International-USA, National Coop-

erative Grocers Association, and the Northeast Organic Farming Association-Interstate Council.

We urge the Subcommittee's strong consideration of the following funding requests for various USDA programs of importance to organic farmers, marketers and consumers:

USDA/Agricultural Marketing Service (AMS)

National Organic Certification Cost-Share Program Request: \$1.5 million

In recognition of the costs to farmers and handlers associated with the process of organic certification, the National Organic Certification Cost Share program was authorized by Section 10606 of the Food Security and Rural Investment Act of 2002. In fiscal year 2002 initial funding of \$5 million was provided for this program through the Commodity Credit Corporation (CCC) to AMS. The assistance provided by this program has been particularly critical to small-to-medium scale farmers and handlers struggling with the costs of mandatory organic certification and required annual updates. Unfortunately, the initial CCC funding for this program has been fully expended. Therefore, we are seeking stop-gap funding of \$1.5 million from the CCC to keep the program running until the program can be reauthorized.

Organic Standards Request: 3.13 million

In fiscal year 2006, Congress specified funding of \$2.026 million for the AMS category of "Organic Standards." In the President's fiscal year 2007 budget submittal, a request was made for \$3.13 million for AMS "Organic Standards." We support the President's budget, in order to provide the National Organic Program with greater resources for certifier training, National Organic Standards Board support, enforcement, and public outreach and education on upcoming rulemaking processes.

For several years, report language has been included in the Senate report strongly urging the National Organic Program to take action on several unfulfilled statutory requirements. Specifically, the Senate report language in fiscal years 2004, 2005, and 2006 called on the NOP to hire an Executive Director for the National Organic Standards Board and to establish an on-going Peer Review Panel, as called for in OFPA, to provide oversight and advice to the NOP regarding the accreditation process for organic certifiers.

While progress has been slow in complying with these statutory requirements, the members of the National Organic Coalition are very pleased that an Executive Director for the National Organic Standards Board has been hired by USDA. This position is critical in helping the NOSB fulfill its statutory role, especially at time of such heavy workload for the Board. We congratulate the NOP for taking this action.

In contrast, the requirements of Section 2117 of OFPA to establish a Peer Review Panel and the further requirement of Section 205.509 of the Organic rule to establish an annual Peer Review Panel have not been met by the NOP. However, we are pleased that the NOP contracted with the American National Standards Institute (ANSI) to perform an outside audit of the NOP, the results of which were presented in late 2004. The ANSI audit noted numerous technical and procedural deficiencies in the NOP's operations and suggested corrective actions in several areas. In addition, USDA's own Inspector General's office released an audit report regarding the National Organic Program in July of 2005, which was very critical of the National Organic Program's operations, and also suggested several corrective actions that could be taken by the Agency to resolve the problems. The Members of the National Organic Coalition concur with the recommendations of the ANSI and Office of Inspector General (OIG) audits, and believe that if the NOP were to implement these recommendations, it would be a significant step to resolving many of the concerns that have been raised by the organic community regard the NOP's operations.

Recently, a new National Organic Program Director was hired with significant expertise in the area of quality systems management and ISO compliance. We are very encouraged that the new Director's expertise will be helpful in guiding the NOP in implementing the ANSI and OIG audit recommendations. However, we also believe that the House and Senate Agriculture Appropriations Subcommittees should be kept informed by NOP with regular reports on their progress in complying with these recommendations. Therefore, in addition to supporting the Administration's budget request of \$3.13 million for AMS/organic standards, we are requesting that the following report language be included:

The Committee is encouraged that the Agency has hired an Executive Director for the National Organic Standards Board (NOSB), as well as a new Director for the National Organic Program. The Committee also notes that the audits performed by the American National Standards Institute (ANSI) in 2004 and by the USDA Office of Inspector General (OIG) in 2005 made strong recommendations about changes needed in the administration of the National Organic Program. The Com-

mittee expects the Agency to take the necessary actions to comply with these recommendations, and to provide a written report to the Committee by December of 2006 regarding the progress in implementing these recommendations. In addition, the Committee expects a report regarding the complaints that the NOP has received about violations of the organic standards, and the progress of the Agency in investigating and responding to those complaints. Finally, the Committee expects the NOP to work closely with the NOSB to implement the Peer Review Panel requirements of OPFA and USDA's organic regulations.

USDA

Organic Data Initiatives

Authorized by Section 7407 of the 2002 Farm Bill, the Organic Production and Marketing Data Initiative States that the "Secretary shall ensure that segregated data on the production and marketing of organic agricultural products is included in the ongoing baseline of data collection regarding agricultural production and marketing." As the organic industry matures and grows at a rapid rate, the lack of national data for the production, pricing, and marketing of organic products has been an impediment to further development of the industry and to the effective functioning of many organic programs within USDA. Because of the multi-agency nature of data collection within USDA, the effort to improve organic data collection and analysis must also be undertaken by several different agencies within the Department:

Economic Research Service (ERS)

Collection and Analysis of Organic Economic Data Request: \$750,000

In fiscal year 2006, Congress appropriated \$500,000 to USDA's Economic Research Service to continue the collection of valuable acreage and production data, as required by Section 7407 of the 2002 farm bill. Because increased ability to conduct economic analysis for the organic farming sector is greatly needed, we request \$750,000 to be appropriated to the USDA ERS to implement the "Organic Production and Market Data Initiative" included in Section 7407 of the 2002 farm bill.

Agricultural Marketing Service (AMS)

Organic Price Collection Request: \$1 million

Accurate, public reporting of agricultural price ranges and trends helps to level the playing field for producers. Wholesale and retail price information on a regional basis is critical to farmers and ranchers, but organic producers have fewer sources of price information available to them than conventional producers. Additionally, the lack of appropriate actuarial data has made it difficult for organic farmers to apply for and receive equitable Federal crop insurance. AMS Market News is involved in tracking product prices for conventional agricultural products, and with funding, could broaden their efforts to include organic price data as well. We request \$1 million to be appropriated to the USDA Agricultural Marketing Service for collection of organic price information.

National Agriculture Statistics Service (NASS)

Census Follow-up/Organic Grower Survey Request: \$1 million

The mission of USDA's National Agricultural Statistics Service (NASS) is to provide timely, accurate, and useful statistics in service to U.S. agriculture. NASS is making an effort to expand the quantity of organic questions in the 2007 census. However, they will need to conduct a follow-up survey to collect more in-depth information on acreage, yield/production, inventory, production practices, sales and expenses, marketing channels, and demographics. Therefore, we are requesting \$1 million for USDA NASS.

USDA/CSREES

Organic Transitions Program Request: \$5 million

The Organic Transition Program, funded through the CSREES budget, is a research grant program that helps farmers surmount some of the challenges of organic production and marketing. As the organic industry grows, the demand for research on topics related to organic agriculture is experiencing significant growth as well. The benefits of this research are far-reaching, with broad applications to all sectors of U.S. agriculture, even beyond the organic sector. Yet funding for organic research is minuscule in relation to the relative economic importance of organic agriculture and marketing in this nation.

The CSREES Organic Transition Program was funded at \$2.1 million in fiscal year 2003, \$1.9 million in fiscal year 2004, and \$1.88 million for both fiscal years

2005 and 2006. Given the rapid increase in demand for organic foods and other products, and the growing importance of organic agriculture, the research needs of the organic community are expanding commensurately. Therefore, we are requesting that the program be funded at \$5 million in fiscal year 2007. In addition, we are requesting that the Organic Transition Program remain a separate program, and not be subsumed within the National Research Initiative, as proposed in the President's budget.

USDA/CSREES

National Research Initiative (NRI) Request: Language directing CSREES to add a new NRI program area to foster classical plant and animal breeding

In recent decades, public resources for classical plant and animal breeding have dwindled, while resources have shifted toward genomics and biotechnology, with a focus on a limited set of major crops and breeds. Unfortunately, this shift has significantly curtailed the public access to plant and animal germplasm, and limited the diversity of seed variety and animal breed development. This problem has been particularly acute for organic and sustainable farmers, who seek access to germplasm well suited to their unique cropping systems and their local environment. Without renewed funding in this arena, the public capacity for plant and animal breeding will disappear.

In both of fiscal years 2005 and 2006, the Senate Agriculture Appropriations Subcommittee included report language raising concerns about this problem, and urging CSREES to give greater consideration to research needs related to classical plant and animal breeding, when setting priorities within the National Research Initiative. Despite this report language, research proposals for classical plant and animal breeding that have sought NRI funding in the past couple of years have been consistently declined. Further, the shift in NRI toward work on genomics and biotechnology continues, to the exclusion of classical plant and animal breeding.

As the nation's preeminent agricultural competitive grants program, the National Research Initiative should be funding classical plant and animal breeding activities. The NRI currently has over 30 program areas of focus. We are requesting that an additional program area be created within the NRI to foster this important research, and that this new program area be entitled, "Classical Plant and Animal Breeding to Foster More Diverse, Energy Efficient and Environmentally Sustainable Agricultural Systems."

USDA/CSREES

Sustainable Agriculture Research Request: \$15 million (Chapter 1) and Education (SARE) and \$5 million (Chapter 3)

The SARE program has been very successful in funding on-farm research on environmentally sound and profitable practices and systems, including organic production. The reliable information developed and distributed through SARE grants have been invaluable to organic farmers. We are requesting \$15 million for Chapter 1 and \$5 million for Chapter 3 for fiscal year 2007.

USDA/Rural Business Cooperative Service Appropriate Technology Transfer for Rural Areas (ATTRA) Request: \$3.1 million

ATTRA is a national sustainable agriculture information service, which provides practical information and technical assistance to farmers, ranchers, Extension agents, educators and others interested in sustainable agriculture. ATTRA interacts with the public, not only through its call-in service and website, but also provides numerous publications written to help address some of the most frequently asked questions of farmers and educators. Much of the real-world assistance provided by ATTRA is extremely helpful to the organic community. As a result, the growth in demand for ATTRA services has increased significantly, both through the website-based information services and through the growing requests for workshops. We are requesting \$3.1 million for ATTRA for fiscal year 2007, representing a \$600,000 increase over fiscal year 2005 and fiscal year 2006 levels. These funds would be used to initiate a Farm Energy Initiative, to respond to the high demand for information and technical assistance from farmers about ways to increase their energy efficiency in response to high energy costs.

*USDA/ARS**Strategic Regional Programming for Organic Agricultural Research Request:
\$10 million, divided between regions*

In 2005, USDA-ARS spent about \$3.5 million on organic-specific projects, or about 0.35 percent of the overall ARS budget for fiscal year 2005. Given its growing importance in the overall agricultural economy, the commitment by ARS to organic research must be greatly enhanced.

Distributed among the 7 Regional Areas and the ARS National Program Office, this funding would provide needed flexibility to better address the broad needs and opportunities of the organic production and processing sector. Funding will be allocated by the Area Directors to: (1) maintain and enhance existing CRIS projects, scientists and technicians whose objectives are specific to organic production and processing; and (2) provide support to integrate organic agriculture objectives into other projects, when such capacity exists.

*USDA/NRCS**Conservation Security Program Request: No Funding Limitation**USDA/Rural Business Cooperative Service**Value-Added Producer Grants Request: No Funding Limitation*

The Conservation Security Program (authorized by Section 2001 of the 2002 farm bill) and the Value-Added Producer Grant (authorized by Section 6401 of the 2002 farm bill) have great potential to benefit organic producers in their efforts to conserve natural resources and to explore new, value-added enterprises as part of their operations. Unfortunately, while these programs were authorized to operate with mandatory funding, their usefulness has been limited by funding restrictions imposed through the annual appropriations process. We are urging that the Conservation Security Program and the Value-Added Producer Grant Program be permitted to operate with unrestricted mandatory funding, as authorized.

Thank you for this opportunity to testify and for your consideration on these critical funding requests.

PREPARED STATEMENT OF NATIONAL POTATO COUNCIL

My name is Ed Schneider. I am a potato farmer from Pasco, Washington and current Vice President, Legislative/Government Affairs for the National Potato Council (NPC). On behalf of the NPC, we thank you for your attention to the needs of our potato growers.

The NPC is the only trade association representing commercial growers in 50 States. Our growers produce both seed potatoes and potatoes for consumption in a variety of forms. Annual production is estimated at 437,888,000 cwt. with a farm value of \$3.2 billion. Total value is substantially increased through processing. The potato crop clearly has a positive impact on the U.S. economy.

The potato is the most popular of all vegetables grown and consumed in the United States and one of the most popular in the world. Annual per capita consumption was 136.5 pounds in 2003, up from 104 pounds in 1962 and is increasing due to the advent of new products and heightened public awareness of the potato's excellent nutritional value. Potatoes are considered a nutritious consumer commodity and an integral, delicious component of the American diet.

The NPC's fiscal year 2007 appropriations priorities are as follows:

*Potato Research**Cooperative State Research Education and Extension Service (CSREES)*

The NPC urges the Congress not to support the President's fiscal year 2007 budget request to eliminate the CSREES Special Grant Programs and the formula funds under the Hatch Act. Both of these programs support important university research work that helps our growers remain competitive in today's domestic and world marketplace.

The NPC supports an appropriation of \$1.8 million for the Special Potato Grant program for fiscal year 2007. The Congress appropriated \$1.417 million in fiscal year 2004, a decrease from the fiscal year 2003 level of \$1.584 million and \$1.509 million in fiscal year 2005. This has been a highly successful program and the number of funding requests from various potato-producing regions is increasing.

The NPC also urges that the Congress include Committee report language as follows:

“Potato research.—The Committee expects the Department to ensure that funds provided to CSREES for potato research are utilized for varietal development testing. Further, these funds are to be awarded after review by the Potato Industry Working Group.”

Agricultural Research Service (ARS)

The NPC urges that the Congress not support the Administration’s fiscal year 2007 budget request to rescind all fiscal year 2005 Congressional increases for research projects.

The Congress provided funds for a number of important ARS projects and, due to previous direction by the Congress, the ARS continues to work with the NPC on how overall research funds can best be utilized for grower priorities.

Foreign Market Development: Market Access Program (MAP)

The NPC also urges that the Congress maintain the spending level for the Market Access Program (MAP) at its authorized level of \$200 million for fiscal year 2007 and not support the Administration’s budget request to cap this valuable export program at the \$125 million level.

Foreign Agriculture Service (FAS)

The NPC supports the President’s fiscal year 2007 budget request of \$152.4 million for the USDA Foreign Agriculture Service (FAS). This level is the minimum necessary for the agency given the multitude of trade negotiations and discussions currently underway.

Food Aid Programs

McGovern-Dole

The NPC supports the Administration’s fiscal year 2007 budget request of \$100 million for the McGovern-Dole International Food Aid Program. PVO’s have been including potato products in their applications for this program.

Public Law 480

The President’s fiscal year 2007 budget requests \$1.2 billion for USAID programs, including \$964 million for USAID Public Law 480 Title II programs. The President’s budget also transfers \$300 million from USAID Title II activities funded under the Agriculture Budget to the Foreign Operations Budget. The NPC urges that the \$300 million be reinstated in the regular USAID Public Law 480 Title II budget to avoid a significant loss of applications for dehydrated potatoes in Title II programs and procurement of U.S. food commodities for food aid.

Pest and Disease Management

Animal and Plant Health Inspection Service (APHIS)

Golden Nematode Quarantine.—The NPC supports an appropriation of \$1,266,000 for this quarantine which is what is believed to be necessary for USDA and the State of New York to assure official control of this pest. Failure to do so could adversely impact potato exports.

Given the transfer of Agriculture Quarantine Inspection (AQI) personnel at U.S. ports to the Department of Homeland Security, it is important that certain USDAAPHIS programs be adequately funded to ensure progress on export petitions and protection of the U.S. potato growers from invasive and harmful pests and diseases.

Pest Detection.—The NPC supports \$45 million in fiscal year 2007, which is the Administration’s budget request. Now that the Agriculture Quarantine Inspection (AQI) program is within the new Homeland Security Agency, this increase is essential for the Plant Protection and Quarantine Service’s (PPQ) efforts against potato pests and diseases such as *Ralstonia*.

Emerging Plant Pests.—\$101 million was appropriated in fiscal year 2005. The President requests \$127 million in fiscal year 2007 which the NPC supports.

The NPC supports having the Congress once again include language to prohibit the issuance of a final rule that shifts the costs of pest and disease eradication and control to the States and cooperators.

Trade Issues Resolution Management.—\$12,578,000 was appropriated in fiscal year 2005 and the President requests \$18 million in fiscal year 2007. The NPC supports this increase only if it is specifically earmarked for plant protection and quarantine activities. These activities are of increased importance yet none of these funds are used directly for plant protection activities. As new trade agreements are negotiated, the agency must have the necessary staff and technology to work on

plant related import/export issues. The NPC also relies heavily on APHIS-PPQ resources to resolve phytosanitary trade barriers in a timely manner.

Agricultural Statistics

National Agricultural Statistics Service (NASS)

The NPC supports sufficient funds and guiding language to assure that the potato objective yield and grade and size surveys are continued.

Rural Development Grants

Since potato growers do not receive direct payments, the 2002 Farm Bill provided for, among other things, grants to allow our growers to expand their business opportunities. One program that has been used by our growers is the value-added grant program. The NPC would urge that the Farm Bill funding level for this program be maintained. In addition, maintaining adequate farm labor is also important to our growers. The NPC urges that farm labor housing grants be maintained and not reduced as proposed by the Administration's budget request.

PREPARED STATEMENT OF THE NATIONAL RURAL TELECOM ASSOCIATION

Project Involved.—Telecommunications lending programs administered by the Rural Utilities Service of the U.S. Department of Agriculture

Actions Proposed.—Supporting loan levels for fiscal year 2007 in the amounts requested in the President's budget for 5 percent direct (\$144 million) and cost of money (\$247 million) and the associated subsidy, as required, to fund those programs at the requested levels.

—Supporting Sec. 306 guaranteed loans in the amount (\$299 million) requested in the budget.

—Opposing the budget request that would cut direct loans for broadband facilities and internet service access by almost 30 percent from the fiscal year 2006 enacted level of \$500 million to \$356 million. Supporting the request to fund the program through discretionary funding and the budget proposal to provide \$30 million of the authorized level in broadband loans at an interest rate of 4 percent.

—Supporting the completion of the dissolution of the Rural Telephone Bank in fiscal year 2006 in accordance with the administration's budget assumption.

—Supporting continued funding, as requested in the President's budget, in the amount of \$25 million in grant authority designated for distance learning and medical link purposes.

Mr. Chairman, Members of the Committee: My name is John F. O'Neal. I am General Counsel of the National Rural Telecom Association. NRTA is comprised of commercial telephone companies that borrow their capital needs from the Rural Utilities Service of the U.S. Department of Agriculture (RUS) to furnish and improve telephone service in rural areas. Approximately 1000, or 71 percent of the Nation's local telephone systems borrow from RUS. About three-fourths of these are commercial telephone companies. RUS borrowers serve almost 6 million subscribers in 46 states and employ over 22,000 people. In accepting loan funds, borrowers assume an obligation under the act to serve the widest practical number of rural users within their service area.

Program Background

Rural telephone systems have an ongoing need for long-term, fixed rate capital at affordable interest rates. Since 1949, that capital has been provided through telecommunications lending programs administered by the Rural Utilities Service and its predecessor, the Rural Electrification Agency (REA).

RUS loans are made exclusively for capital improvements and loan funds are segregated from borrower operating revenues. Loans are not made to fund operating revenues or profits of the borrower system. There is a proscription in the Act against loans duplicating existing facilities that provide adequate service and state authority to regulate telephone service is expressly preserved under the Rural Electrification Act.

Rural telephone systems operate at a severe geographical handicap when compared with other telephone companies. While almost 6 million rural telephone subscribers receive telephone service from RUS borrower systems, they account for only 4 percent of total U.S. subscribers. On the other hand, borrower service territories total 37 percent of the land area—nearly 12 million squares miles. RUS borrowers average about six subscribers per mile of telephone line and have an average of more than 1,000 route miles of lines in their systems.

Because of low-density and the inherent high cost of serving these areas, Congress made long-term, fixed rate loans available at reasonable rates of interest to assure that rural telephone subscribers, the ultimate beneficiaries of these programs, have comparable telephone service with their urban counterparts at affordable subscriber rates. This principle is especially valid today as this administration endeavors to deploy broadband technology and as customers and regulators constantly demand improved and enhanced services. At the same time, the underlying statutory authority governing the current program has undergone significant change. In 1993, telecommunications lending was refocused toward facilities modernization. Much of the subsidy cost has been eliminated from the program. In fact, most telecommunications lending programs now generate revenue for the government. The subsidy that remains has been targeted to the highest cost, lowest density systems in accordance with this administration's stated objectives.

We are proud to state once again for the record that there has never been a loan default by a rural telephone system! All of their loans have been repaid in accordance with their terms: \$13 billion in principal and interest at the end of the last fiscal year.

Need for RUS Telecommunications Lending Continues

The need for rural telecommunications lending is great today, possibly even greater than in the past. Technological advances make it imperative that rural telephone companies upgrade their systems to keep pace with improvements and provide the latest available technology to their subscribers. And 5 years ago, Congress established a national policy initiative mandating access to broadband for rural areas. But rapid technological changes and the inherently higher costs to serve rural areas have not abated, and targeted support remains essential.

Competition among telephone systems and other technological platforms have increased pressures to shift more costs onto rural ratepayers. These led to increases in both interstate subscriber line charges and universal service surcharges on end users to recover the costs of interstate providers' assessments to fund the Federal mechanisms. Pressures to recover more of the higher costs of rural service from rural customers to compete in urban markets continue to burden rural consumers. There is a growing funding crisis for the statutory safeguards adopted in 1996 to ensure that rates, services and network development in rural America will be reasonably comparable to urban telecommunications opportunities.

Ongoing Congressional Mandates for Rural Telecommunications

Considerable loan demand is being generated because of the mandates for enhanced rural telecommunications standards contained in the authorizing legislation. We are, therefore, recommending the following loan levels for fiscal year 2007 and the appropriation of the associated subsidy costs, as required, to support these levels:

5 percent Direct Loans	\$144,000,000
Cost-of-Money Loans	247,000,000
Guaranteed Loans	299,000,000
Broadband Loans	500,000,000
Total	1,190,000,000

These are the same levels for 5 percent direct, cost-of-money loans and guaranteed loans, as requested in the President's budget for fiscal year 2007 and the enacted amount for broadband loans in the fiscal year 2006 appropriations act. The authorized levels of loans in each of these programs were substantially obligated in fiscal year 2005 and current estimates are that authorized program levels will be met in fiscal year 2006. We believe that the needs of this program balanced with the minimal cost to the taxpayer make the case for its continuation at the stated levels.

Rural Telephone Bank Dissolution Initiative

Congress established the Rural Telephone Bank in 1971 to provide supplemental financing for rural telephone systems with the objective that the bank ultimately would be owned and operated by its private shareholders. However, changed circumstances in the rural telephone industry and difficulties associated with accelerating privatization of the Rural Telephone Bank have made this transition to private ownership and control problematic raising difficult questions about the viability of a privatized bank and its future support among rural telephone systems.

In recognition of these factors, the administration, subject to congressional approval, determined to dissolve the bank in fiscal year 2006 pursuant to Sec. 411 of the RTB enabling act. We continue to support this action as well as the budget recommendation to transfer the historic lending authority of the RTB (\$175 million) to the guaranteed loan program so that rural telephone systems will continue to have adequate loan resources available for rural telecommunications infrastructure development at the levels intended by the Congress. We share the assumption in the fiscal year 2007 budget that the bank's dissolution will be completed during the current fiscal year.

The Broadband Loan Program

The broadband loan program was funded last year for the current fiscal year at \$500 million. Very little subsidy cost is associated with this program since most of the loans are made at the government's cost-of-money. Despite that, the President's budget recommends reducing the loan levels for fiscal year 2007 by almost 30 percent to \$356 million. We are opposed to that and recommend to the committee that the fiscal year 2007 appropriations bill continue to fund the program at enacted levels. The demand for this program is still quite strong and if the President's stated objective of deploying this technology to all rural areas of this country is to be met, the \$500 million funding level must be maintained.

At the same time, this year's budget recognizes that given the high costs involved in the more sparsely populated areas requires subsidy assistance and recommends that \$30 million of the authorized level of these loans be made at a 4 percent interest rate. We support that initiative as well as the budget request to fund the program through discretionary rather than mandatory funding.

Grants for Medical Link and Distance Learning Purposes

We support the continuation in fiscal year 2007 of the \$25 million in grant authority provided in the President's budget for medical link and distance learning purposes and the decision to not request additional loan funds for these programs. The purpose of these grants is to accelerate deployment of medical link and distance learning technologies in rural areas through the use of telecommunications, computer networks, and related advanced technologies by students, teachers, medical professionals, and rural residents. We agree with the conclusion in the budget that these projects are more feasible when provided through grants to eligible recipients rather than loans.

Conclusion

Thank you for the opportunity to present the association's views concerning this vital program. The telecommunications lending programs of RUS continue to work effectively and accomplish the objectives established by Congress at a minimal cost to the taxpayer. They serve to assure that America's rural inhabitants will never become second-class citizens in this modern information age of telecommunications technology.

PREPARED STATEMENT OF THE NATIONAL WIC ASSOCIATION

Dear Chairman Bennett and Ranking Member Kohl: We write on behalf of the National WIC Association, NWA, to present comments on the President's proposal to fund the Special Supplemental Nutrition Program for Women, Infants and Children, known as WIC, for the fiscal year 2007.

We write on behalf of the thousands of nationally recognized WIC health professionals, nutritionists and dietitians who are committed to addressing the nutrition and healthcare needs of WIC families. Our members serve over 8.0 million low and moderate-income women and children with, or at risk of developing, nutrition-related health problems through 2,100 WIC agencies in 10,000 WIC clinics each month. WIC serves almost one-half of all infants born in this country and roughly 1 in 4 of all children between 1 and 5 years of age. Our members are the front lines battling to improve the quality of life for our most vulnerable populations.

At the outset, we would like to compliment both of you and members of the Subcommittee for your long-term commitment to WIC. The future of our Nation's low-income women, infants and children depend upon your support. NWA is proud of the strong bi-partisan commitment WIC has engendered since its inception.

As well, we compliment the President, Secretary Mike Johanns, Under Secretary for Food, Nutrition, and Consumer Services Eric Bost and their teams for their past support of WIC.

We applaud the President for proposing to provide \$15 million for breastfeeding initiatives, \$14 million for infrastructure funds, \$125 million to restore the contingency fund, and to maintain the moratorium on new WIC-Only vendors.

In contrast to the President's budget proposal of \$5.2 billion, NWA strongly recommends that WIC be funded at \$5.388 billion. NWA's recommended funding level is \$188 million above the President's request and redresses the damages from the proposed cap on NSA funding (\$152 million), the proposal to cap Medicaid adjunctive eligibility (\$3 million), a failure to provide funding for essential MIS needs (\$30 million) and important health outcomes research (\$3 million).

We are dismayed that the President has again offered his proposal to cap nutrition services funding (NSA) at 25 percent of the total amount provided—that Congress wisely defeated in the 1st Session of the 109th Congress. This proposal will reduce services for all mothers and children and because States are highly unlikely to be able to further reduce per participant costs, 850,000 mothers and children could potentially lose essential nutrition services benefits.

Nutrition services include nutrition assessment, counseling and education, obesity prevention efforts, breastfeeding support and promotion efforts, on-going interventions of nutrition related complications of pregnancy, complex feeding and growth issues of infants and children, follow-up of special metabolic formulas, pre-natal and pediatric healthcare referrals and follow-up, spousal and child abuse referral, drug and alcohol counseling referral, immunization screening assessment and referral and a host of other client benefits. Simply put, the President's proposal to cap nutrition services funding, NSA, represents a significant benefit cut to WIC mothers and children.

The Government Accountability Office, GAO, in its mandated report to Congress entitled "Food Assistance: WIC Faces Challenges in Providing Nutrition Services," published in December 2001, writes that: "WIC has been faced with the challenge of meeting additional program requirements with available resources. Since the late 1980's, a number of requirements have been placed on the program aimed at, among other things, containing the cost of food benefits, promoting breastfeeding, encouraging immunizations, and controlling program abuse. While these requirements have placed additional service delivery and administrative demands on WIC staff, they have not been accompanied by more funding per participant; the NSA grant per participant was established in 1989 and since then has only been adjusted for inflation. There is also evidence that nonfederal support for NSA may have decreased since fiscal year 1992. Nor have the additional demands been offset by reductions in other responsibilities. As a result, WIC agencies have had to cut costs and make changes in service delivery that potentially will have a negative impact on the quality of WIC services (GAO-02-142, p. 31)."

Balancing increased program demands and available resources has forced WIC Programs across the nation to cut costs despite increasing needs.

Indeed, local agencies have been forced to consolidate or close clinics and in some cases dramatically increase participant to staff ratios to unacceptable levels of 1,000:1 or 1,200:1 from 300:1. The GAO quotes 1998 and 2001 USDA studies that found that "22 percent of local agencies serving almost 25 percent of all WIC participants reported having inadequate office space. Additionally, 30 percent of local agencies serving about 41 percent of all WIC participants reported having insufficient numbers of professional staff. Finally, 56 percent of State WIC agency automated management information systems were not capable of performing, or efficiently performing, 1 or more of 19 essential program tasks (GAO-02-142, p. 37)." Evidence suggests that this situation has only gotten worse.

It is important to note that State cost containment efforts have significantly contributed to reducing WIC food package costs. Indeed, savings from infant formula cost containment efforts allow WIC to cover the food benefits provided to roughly 20 percent of WIC mothers and children and saved the Subcommittee and Federal tax payers over \$23 billion since 1989. "If rebate savings are considered, NSA has remained roughly 20 percent of total program costs from 1988 through 1999 (GAO-02-142, p. 34)." In essence, cost containment has effectively capped NSA at unreasonably low levels. A legislated cap has the potential to further diminish the success and savings the Program has achieved.

It takes NSA resources to prescribe and distribute WIC food packages and maintain program integrity. The President's proposed cap on WIC NSA funding will result in unspent WIC food resources and unmet participant needs, increasing the vulnerability of all ready food insecure mothers and children. We cannot imagine that the President intends this result when in previous years he was so committed to ensuring that WIC received additional overall Program funding.

WIC's population, like the general population, has experienced dramatic increases in the prevalence of overweight and obesity and related health issues. A study re-

leased by the Department of Health and Human Services' Centers for Disease Control and Prevention shows that deaths due to poor diet and physical inactivity rose by 33 percent over the past decade and may soon overtake tobacco use as the leading preventable cause of death. WIC Programs across the Nation have been actively engaged in obesity prevention efforts since the turn of the millennium and WIC is recognized for its role in addressing the Nation's obesity health crisis.

WIC uses multiple key nutrition services strategies in the Program's nearly 10,000 clinics to combat the growing national obesity epidemic. These include:

- Individualized nutrition assessments provided to mothers and children to identify overweight or obesity among other nutrition risks;
- Individualized nutrition counseling provided for at-risk mothers and children;
- Prescribed, tailored, reduced fat and low-sugar WIC food packages provided to all WIC mothers and children that include reduced or non-fat milk, reduced-fat cheese, and cereals with 6 grams of sugar or less;
- Counseling to promote increased physical activity;
- Counseling for eating and life-style behaviors that may contribute to overweight and obesity;
- Instruction on how to select and prepare healthy foods;
- Active promotion and support of breastfeeding as the best form of infant feeding—acknowledged to aid in preventing childhood overweight and obesity.

Inadequate nutrition services and administration funding will stifle WIC's efforts to achieve positive nutrition outcomes.

The net result of the President's proposal to cap nutrition services funding, NSA, would be to harm the Program and to erode benefits and services for mothers and children.

We urge the Subcommittee to once again exempt WIC from the proposed cap on Nutrition Services funding to protect critical WIC participant benefits.

NWA urges the Subcommittee not to override WIC's authorizing statute and to provide \$30 million annually outside of the regular NSA grant to implement MIS core functions, upgrade and maintain WIC technology systems, achieve program efficiencies and economies, and render systems EBT ready. This will fulfill the President's own WIC technology initiative, embodied in the Child Nutrition and WIC Reauthorization Act of 2004.

The President, in his WIC reauthorization agenda, recognized that technology provides a critical foundation for quality WIC services and Program Integrity. He recognized that funding WIC technology from existing resources compromises WIC's ability to deliver services and develop responsive MIS systems. Current limits on funding prevent more than half—56 percent—of WIC State agencies from meeting USDA core functions. Among these core functions are those that are critical for States to effectively manage grant funds and food cost containment efforts.

To develop and maintain MIS and electronic service delivery systems, and to link with other health data systems the President urged Congress during reauthorization to earmark and provide a funding level of \$30 million annually outside the regular NSA grant to implement MIS core functions, upgrade WIC technology systems, maintain MIS and electronic services and expedite the joint NWA/USDA 5 year plan for State MIS systems. This funding level is a mere down payment for the actual costs of improving outdated and outmoded MIS systems—USDA reported in 2001 that “the cost of bringing WIC's essential program tasks up to standard in all States over the next 6 years is between \$147 million and \$267 million (GAO-02-142, p. 22).”

The President's fiscal year 2007 proposal provides no monies for MIS, seriously jeopardizing mandated vendor cost containment requirements and impending changes to the WIC food packages essential to combating obesity. We urge the Subcommittee to act to fund MIS and electronic service delivery systems at \$30 million in its appropriations bill.

NWA urges that Congress continue to save Medicaid funds by ensuring that all Medicaid recipients remain automatically income eligible for WIC. The President has again proposed a cap on Medicaid adjunctive eligibility, freezing that eligibility level at 250 percent. This proposal, wisely rejected by Congress last year, most directly affects MD, MO, MN, NH, RI and VT.

This proposal flies in the face of the Administration's purported efforts to reduce NSA costs by driving up the expense of doing WIC business for the six States directly affected. Though it eliminates eligibility for only a small number of individuals, it would require the affected States to accomplish duplicative income documentation for all Medicaid recipients applying for WIC. It would have the unintended consequence of potentially discouraging otherwise WIC eligible mothers and children from applying if they feel that they may not be eligible, undermining the preventative impact of WIC and adding unnecessary administrative burden.

Although this proposal is not included in the fiscal year 2007 budget request for WIC, the President has signaled his intention in the Administration's fiscal year 2007 budget request to recommend in fiscal year 2008 a required State match of 20 percent for nutrition services (NSA) funds. NWA urges Subcommittee members to oppose this recommendation. Based on USDA data, adjusted for inflation, in fiscal year 2008, should States fail to provide a match, more than 1.5 million mothers and children would be at risk of losing critical nutrition services benefits!

It is inconceivable that State legislatures and governors would be willing to provide matching funds. This proposal would be disastrous for the future of WIC, leading to a significant deterioration in services and State and local agencies closing down clinics, even entire programs. WIC food benefits cannot be prescribed or provided, nor can program integrity be maintained without adequate NSA resources.

A matching grant would undermine or even eliminate current effective collaborative relationships due to reduced resources. Collaboration is already jeopardized with some programs that have limited resources as a result of Federal and State funding cuts.

A national priority for 32 years, WIC ensures healthy pregnancies, babies and children. To make WIC anything less than a national priority runs the risk of increased infant mortality and increased numbers of low birth weight infants. WIC must remain a national priority.

Finally, NWA has sought changes in the WIC Food Packages since 2000, attempting to bring them in line with current dietary science. The Association has encouraged USDA/FNS to publish a proposed rule transforming the WIC food packages by adding fresh, frozen and canned fruits and vegetables, among other changes proposed by the National Academy of Sciences Institutes of Medicine. NWA urges the Subcommittee to continue to press USDA/FNS for immediate publication of a proposed rule, reflecting the IOM's recommendations, with a minimum 90-day public comment period. The time for change in the WIC food packages is now if we are to continue to meet the challenges of ensuring healthy children and preventing obesity in low-income populations.

NWA urges the Subcommittee to fully fund WIC for the fiscal year 2007 at \$5.388 billion, oppose the NSA and Medicaid caps, fund MIS at \$30 million, fund breastfeeding initiatives at \$15 million, fund infrastructure needs at \$14 million, fully restore the WIC contingency fund to \$125 million, continue the moratorium on new WIC-Only stores until State agencies are in full compliance with the Interim Final Rule on Vendor Cost Containment, and fund WIC health outcomes research at \$3 million.

WIC is a short-term intervention program designed to influence lifetime nutrition behaviors and lifelong health outcomes in a targeted, high-risk population. It has an extraordinary, nearly 31-year record of preventing children's health problems and improving their health, growth and development. WIC children enter school ready to learn. They show better cognitive performance. It would be tragic to undo 32 years of success and reverse the President's own multi-year commitment to the families WIC serves.

PREPARED STATEMENT OF THE NATURE CONSERVANCY

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to present The Nature Conservancy's recommendations for fiscal year 2007 appropriations for Agriculture, Rural Development, Food and Drug Administration and Related Agencies. My name is Jimmie Powell and I am the Director of Government Relations at the Conservancy.

The Nature Conservancy is an international, nonprofit organization dedicated to the conservation of biological diversity. Our mission is to preserve the plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. Our on-the-ground conservation work is carried out in all 50 states and in 27 foreign countries and is supported by approximately one million individual members. We have helped conserve nearly 15 million acres of land in the United States and Canada and more than 102 million acres with local partner organizations globally.

Much of my testimony today will concern the pests, pathogens and other invasive species that threaten natural landscapes and working lands all across our Nation. These threats are urgent and it is most important that the federal government provide leadership now in addressing this growing threat to our economy and to the wildlife and plants of our continent.

Asian Longhorned Beetle.—The Asian Longhorned Beetle kills a wide variety of hardwood trees, particularly sugar maple. ALB threatens to devastate forests reach-

ing from New England to the Great Lakes. Currently the beetle is found primarily in New York City and New Jersey. APHIS, working with state, and local officials, is succeeding in a 10-year program to eradicate ALB. The President has proposed funding of \$19.927 million in fiscal year 2007 as compared to the \$19.859 million appropriated (after rescission) in fiscal year 2006. We urge the Subcommittee to fund ALB at \$30 million in fiscal year 2007, so that the ongoing efforts to eradicate this pest will succeed. Failure to eradicate the ALB exposes both urban and rural areas of northern states to substantial risk. If not stopped, ALB could kill 30 percent of the Nation's urban trees at a compensatory value of \$669 billion. If it is unchecked, the New England maple syrup industry is threatened as well as autumn foliage tourism which generates \$1 billion in revenue in New England every year.

Cactus Moth.—The cactus moth kills prickly pear cacti. First found in Florida, the moth is rapidly moving along the Gulf Coast (currently it has traveled as far as Alabama). APHIS has bred a sterile cactus moth that may help control the spread of this pest. Control of the cactus moth before it disperses around the Gulf Coast would protect the vast diversity of prickly pear cacti in the southwestern United States and Mexico. There are 31 likely host prickly pear species (opuntia) for the moth across the United States (9 found nowhere else in the world), including the federally endangered *Opuntia treleasei*, and 56 in Mexico (38 found nowhere else in the world). Control would also protect agricultural interests. Horticultural production of prickly pears occurs in Arizona, California, Nevada, New Mexico, and Texas. Annual revenues for Arizona alone are estimated at \$14 million. In drought years, ranchers in Texas have burned the spines off opuntias and fed them to cattle. Thus, the cactus moth presents both a critical ecological and agricultural threat. We urge you to fund eradication efforts at \$1.5 million in fiscal year 2007 for a full sterile release program.

Emerald Ash Borer.—The Emerald Ash Borer (EAB), an Asian native, was detected in 2002. Control programs began in 2003. The quarantine area now covers nearly 20,000 square miles in Michigan's Lower Peninsula and nearby areas in Indiana, Ohio, with additional areas in Ontario. At present, spread of the emerald ash borer to the Upper Peninsula, Illinois, and Wisconsin is partially prevented by the Great Lakes. However, if eradication efforts are not sufficiently aggressive, EAB will spread further south into Ohio and Indiana, and be carried to other vulnerable areas in the East and Midwest. Seven billion ash trees are at risk across the Nation, at an estimated cost of \$282 billion. We urge the Subcommittee to provide APHIS with \$55 million to contain the Emerald Ash Borer in fiscal year 2007. In fiscal year 2006, APHIS is spending only \$9.93 million in appropriated funds. We support the efforts of Governors and other partners to obtain urgently needed emergency funds drawn from the Commodity Credit Corporation (CCC) to contain this beetle. Since funding must continue at this higher level for the program to succeed, it is important that the Congress appropriate \$55 million in fiscal year 2007 and beyond.

Sudden Oak Death.—Since 2000, APHIS has worked with California, Oregon, and other states to prevent the spread of Sudden Oak Death (SOD). This disease infects at least 40 native tree, shrub and herb species. The disease kills a variety of western and eastern oak trees. SOD has already killed one hundred thousand tanoaks, live oaks and black oaks in California. If SOD spreads into Oregon and Washington, it could severely disrupt production and movement of Douglas-fir seedlings used in replanting. If SOD spreads to the East, it is likely to kill large numbers of red oaks. Collectively the red and white oaks comprise 38 percent of the Nation's total hardwood saw-timber volume.

Containing Sudden Oak Death has become more challenging as the number of host plants has grown. The situation became a crisis in 2004 when officials discovered that infected nursery plants had been shipped to more than 200 nurseries across the country. APHIS adopted highly restrictive regulations to prevent a recurrence of the 2004 crisis that are proving effective: in 2005, inspectors detected infected plants in 56 nurseries, only 8 of which were not on the West Coast. In fiscal year 2007, at least \$9 million is needed to ensure the continued efficacy of these regulations and curb the spread of this disease.

Sirex Woodwasp.—This wood-boring insect native to Europe, Asia, and North Africa has been introduced into pine plantations in several countries in the Southern Hemisphere where it caused serious damage before the release of a biological control agent reduced the problem. The wasp has now become established in New York and Ontario. According to the USDA Forest Service, if the *Sirex* woodwasp is allowed to spread, within 55 years it could cause damage ranging from \$3 billion to \$17 billion to U.S. pine timber and pulp production, primarily in the South. To forestall these damages, APHIS must implement regulations to prevent movement of infested material while expediting the safety review required before any release in North

America of the biological control agent. We anticipate that APHIS will need several million dollars for this new activity.

USDA Agriculture Research Service.—The Conservancy urges the Subcommittee to provide funding for the Agricultural Research Service (ARS) to study possible biological control agents targeting two insects that threaten the unique cycad forests of Guam. The Asian cycad scale and cycad blue butterfly—both individually and together—are on track to destroy these forests. ARS staff at the Ft. Pierce, Florida laboratory should receive funds to identify and test possible biological control agents targeting these two harmful insects. Additional funds are needed for staff on Guam.

Noxious Weed Control and Eradication Act.—We respectfully request \$15 million to fully implement the Noxious Weed Control and Eradication Act of 2004, enacted by the 108th Congress. As control and management of invasive species are important for agriculture, natural areas, forestry, and rangeland, this effort has strong bipartisan support. This issue is vital to the health of the Nation's economy and ecosystems. Funding for this program now will save money in the long-term.

Pest and Disease Management Programs.—APHIS provides technical and financial support to help control or eradicate a variety of threats to our agricultural and natural systems. In an attempt to further combat pest and disease outbreaks and problems the Administration has proposed a \$10 million pilot competitive-bid program to award grants to private groups who can respond to invasive species with innovative methodologies. It has been noted that a major obstacle to APHIS' ability to rapidly respond to infestations is that there is no national system that addresses all types of invasive species infestations—those affecting aquatic areas, rangelands, and forests as well as crops and livestock. With this pilot program the agency may be able to increase its effectiveness with invasive species by including the early involvement of on the ground groups who recognize the urgent need for rapid response, active involvement, and can bring with them pioneering and resourceful tactics.

Wetlands Reserve Program.—America's wetlands are the habitat for thousands of species of wildlife, and up to half of all North American bird species nest or feed in wetlands and about half of all threatened and endangered species use wetlands. In addition, our wetlands help to trap pollution, reduce the impact of floods, stabilize shore areas, and provide recreational opportunities. President Bush has committed to increasing the number of wetland acres in the United States and has requested full funding for the Wetlands Reserve Program (WRP) in his fiscal year 2007 budget request. Full funding of WRP would allow for enrollment of 250,000 acres in 2007, the full yearly authorized amount in the 2002 Farm Bill. WRP is the key component in meeting the president's promise to create, improve and protect at least 3 million wetland acres over a 5-year period that ends in 2009.

Another very effective program administered under WRP, is the Wetlands Reserve Enhancement Program (WREP), which uses existing authority to enhance the delivery of WRP. Specifically, WREP provides an avenue for NRCS to form special partnerships with States, local governments, and non-profit organizations to improve and expand the delivery of WRP through easement acquisition and activities associated with wetland restoration, creation, or enhancement. We are pleased to see NRCS using this tool to direct funding to locally initiated and led projects that achieve maximum environmental benefits while remaining cost-effective and leveraging non-Federal funds. We fully support the expanded use of this program and propose that with an increased funding level for WRP, NRCS be encouraged to expand its financial assistance available for WREP.

Wildlife Habitat Incentive Program.—The Wildlife Habitat Incentive Program (WHIP) is a highly-effective and widely-accepted program across the country. WHIP is able to target wildlife habitat projects on all lands and aquatic areas, and provides assistance to conservation-minded landowners to develop and improve wildlife habitat on their lands. We recommend that the committee support the President's program request for an increase of \$12 million over the 2006 level. The Conservancy supports the NRCS proposal to target \$10 million to improve migratory fish habitats by removing obstructions from rivers, such as small private dams and water diversions. This focus will help to create incentives to protect streamside areas, repair instream habitat, improve water flows and water quality, or initiate watershed management and planning in areas where streams are in a degraded condition due to past practices.

Conservation Reserve Program.—The Conservancy has been a strong supporter of USDA's Conservation Reserve Program (CRP) and supports the full authorized enrollment of 39 million acres. Roughly 35 million acres across the country are under short term CRP rental agreements, and beginning in 2007, contracts representing over 22 million acres will expire, over 62 percent of those acres. USDA's Farm Serv-

ice Agency (FSA) is currently deciding how to handle this large number of expiring contracts and additional acres, as well.

Few environmental programs have matched the scope and achievement of CRP. Since its inception in 1986, the program has been responsible for reducing soil erosion by nearly 40 percent and restoring the grassland and wetland communities of the Great Plains. However, there is still so much more that the program could accomplish. We urge the committee to direct USDA to increase CRP's environmental benefits by: (1) better targeting CRP enrollments; (2) enhancing the management of CRP lands; and (3) assuring that inappropriate cover plantings are not encouraged by the program. In order to achieve these higher environmental benefits, FSA will need to update and improve the Environmental Benefits Index (EBI). Proper management of CRP lands and improved targeting of CRP contracts to attain the highest conservation goals will require increased funding for the agency as it prepares for huge reenrollment that it now faces.

PREPARED STATEMENT OF THE NEW MEXICO INTERSTATE STREAM COMMISSION

SUMMARY

This Statement is submitted in support of appropriations for the U.S. Department of Agriculture's Environmental Quality Incentives Program (EQIP) and the Colorado River Basin Salinity Control Program. Prior to the enactment of the Farm Security and Rural Investment Act (FSRIA) in 2002, the salinity control program had not been funded at the level necessary to control salinity with respect to water quality standards since the enactment of the Federal Agriculture Improvement and Reform Act (FAIRA) of 1996. Inadequate funding of the salinity control program also negatively impacts the quality of water delivered to Mexico pursuant to Minute 242 of the International Boundary and Water Commission. Adequate funding for EQIP, from which the U.S. Department of Agriculture (USDA) funds the salinity program, is needed to implement salinity control measures. The President's budget for fiscal year 2007 requests an appropriation of \$1 billion for EQIP. I urge the Subcommittee to support an appropriation of at least \$1 billion to be appropriated for EQIP. I request that the Subcommittee designate 2.5 percent, but no less than \$20 million, of the EQIP appropriation for the Colorado River Basin salinity control program. I request that adequate funds be appropriated for technical assistance and education activities directed to salinity control program participants.

STATEMENT

The seven Colorado River Basin States, in response to the salinity issues addressed by Clean Water Act of 1972, formed the Colorado River Basin Salinity Control Forum (Forum). Comprised of gubernatorial appointees from the seven Basin States, the Forum was created to provide for interstate cooperation in response to the Clean Water Act, and to provide the States with information to comply with Sections 303(a) and (b) of the Act. The Forum has become the primary means for the seven Basin States to coordinate with Federal agencies and Congress to support the implementation of the Salinity control program.

Congress authorized the Colorado River Basin salinity control program in the Colorado River Basin Salinity Control Act of 1974. Congress amended the Act in 1984 to give new responsibilities to the USDA. While retaining the Department of the Interior as the lead coordinator for the salinity control program, the amended Act recognized the importance of the USDA operating under its authorities to meet the objectives of the salinity control program. Many of the most cost-effective projects undertaken by the salinity control program to date have occurred since implementation of the USDA's authorization for the program.

Bureau of Reclamation studies show that damages from the Colorado River to United States water users are about \$330,000,000 per year. Damages are estimated at \$75,000,000 per year for every additional increase of 30 milligrams per liter in salinity of the Colorado River. It is essential to the cost-effectiveness of the salinity control program that USDA salinity control projects be funded for timely implementation to protect the quality of Colorado River Basin water delivered to the Lower Basin States and Mexico.

Congress concluded, with the enactment FAIRA in 1996, that the salinity control program could be most effectively implemented as a component of EQIP. However, until 2004, the salinity control program since the enactment of FAIRA was not funded at an adequate level to protect the Basin State-adopted and Environmental Protection Agency approved water quality standards for salinity in the Colorado River. Appropriations for EQIP prior to 2004 were insufficient to adequately control salin-

ity impacts from water delivered to the downstream States, and hampered the required quality of water delivered to Mexico pursuant to Minute No. 242 of the International Boundary and Water Commission, United States and Mexico.

EQIP subsumed the salinity control program without giving adequate recognition to the responsibilities of the USDA to implement salinity control measures per Section 202(c) of the Colorado River Basin Salinity Control Act. The EQIP evaluation and project ranking criteria target small watershed improvements which do not recognize that water users hundreds of miles downstream are significant beneficiaries of the salinity control program. Proposals for EQIP funding are ranked in the States of Utah, Wyoming and Colorado under the direction of the respective State Conservationists without consideration of those downstream, particularly out-of-state, benefits.

Following recommendations of the Basin States to address the funding problem, the USDA's Natural Resources Conservation Service (NRCS) designated the Colorado River Basin an "area of special interest" including earmarked funds for the salinity control program. The NRCS concluded that the salinity control program is different from the small watershed approach of EQIP. The watershed for the salinity control program stretches almost 1,200 miles from the headwaters of the river through the salt-laden soils of the Upper Basin to the river's termination at the Gulf of California in Mexico. NRCS is to be commended for its efforts to comply with the USDA's responsibilities under the Colorado River Basin Salinity Control Act, as amended. Irrigated agriculture in the Upper Basin realizes significant local benefits of improved irrigation practices, and agricultural producers have succeeded in submitting cost-effective proposals to NRCS.

Years of inadequate Federal funding for EQIP since the 1996 enactment of FAIRA and prior to 2004 resulted in the Forum finding that the salinity control program needs acceleration to maintain the water quality criteria of the Colorado River Water Quality Standards for Salinity. Since the enactment of FSRJA in 2002, an opportunity to adequately fund the salinity control program now exists. The President's budget request of \$1 billion accomplishes the needed acceleration of the NRCS salinity control program if the USDA continues its practice of designating 2.5 percent of the EQIP funds appropriated. The requested funding of 2.5 percent, but no less than \$20 million, of the EQIP funding will continue to be needed each year for at least the next few fiscal years.

State and local cost-sharing is triggered by and indexed to the Federal appropriation. Federal funding for the NRCS salinity control program of about \$19.5 million for fiscal year 2006 has generated about \$15.8 million in cost-sharing from the Colorado River Basin States and agricultural producers, or more than an 80 percent match of the Federal funds appropriated for the fiscal year.

USDA salinity control projects have proven to be a most cost-effective component of the salinity control program. USDA has indicated that a more adequately funded EQIP program would result in more funds being allocated to the salinity program. The Basin States have cost-sharing dollars available to participate in on-farm salinity control efforts. The agricultural producers in the Upper Basin are willing to cost-share their portion and are awaiting funding for their applications to be considered.

The Basin States expend 40 percent of the state funds allocated for the program for essential NRCS technical assistance and education activities. Previously, the Federal part of the salinity control program funded through EQIP failed to adequately fund NRCS for these activities, which has been shown to be a severe impediment to accomplishing successful implementation of the salinity control program. Recent acknowledgement by the Administration that technical assistance and education activities must be better funded has encouraged the Basin States and local producers that cost-share with the EQIP funding for implementation of the essential salinity control work. I request that adequate funds be appropriated to NRCS technical assistance and education activities directed to the salinity control program participants (producers).

I urge the Congress to appropriate at least \$1 billion in fiscal year 2007 for EQIP. Also, I request that Congress designate 2.5 percent, but no less than \$20 million, of the EQIP appropriation for the Colorado River Basin salinity control program.

PREPARED STATEMENT OF THE US MARINE SHRIMP FARMING CONSORTIUM

Mr. Chairman, we greatly appreciate the opportunity to provide testimony to you and the Subcommittee, to thank you for your past support, and to discuss the achievements and opportunities of the US Marine Shrimp Farming Consortium (USMSFC), funded under the Federal initiative, Shrimp Aquaculture.

We bring to your attention the success of the US Marine Shrimp Farming Consortium and its value to the Nation. The Consortium consists of institutions from 7 States: the University of Southern Mississippi/Gulf Coast Marine Laboratory, Mississippi; the Oceanic Institute, Hawaii; Tufts University, Massachusetts; Texas Agricultural Experiment Station, Texas A&M University, Texas; Waddell Mariculture Center, South Carolina; the University of Arizona, Arizona; and Nicholls State University, Louisiana. These institutions, which oversee the USMSFC, have made major advances in technology development and services to support the U.S. shrimp farming industry. The USDA in its 2004 program review recognized the program's excellent scientific performance, output, and multi-state collaborative efforts. The Consortium is at the crossroads of contributing to major growth of the U.S. shrimp farming industry, consolidating its competitive advantages, and satisfying consumer's demands for safe and wholesome seafood products. Shrimp is the number one consumed seafood product in the United States, yet contributes to a \$3.6 billion trade deficit, second only to the import of oil for the deficit contributed by natural resource products.

Accomplishments

The Consortium, in cooperation with private industry, industry associations, and government agencies has generated new technologies for producing safe and premium quality marine shrimp at competitive prices. To date, the program has: (1) established the world's first and currently most advanced breeding and genetic selection program for marine shrimp; (2) completed pioneering research and development of advanced diagnostic tools for disease screening and control; (3) described the etiology of shrimp diseases associated with viral pathogens; (4) fostered shrimp production at near-shore, inland/rural farm and even desert sites; (5) served a lead role in the Joint Subcommittee on Aquaculture's efforts to assess the threat of globally transported shrimp pathogens; (6) served on the Office of International Epizootics, recommending country-of-origin labeling of imported shrimp products to combat the spread of exotic disease pathogens, subsequently adopted by the USDA in its 2002 Farm Bill; (7) supplied the United States industry with selectively bred and disease-resistant shrimp stocks; (8) developed advanced technology for biosecure shrimp production systems to protect both cultured and native wild stocks from disease; and (9) developed new feed formulations to minimize waste generation and enhance the use of domestic grains and oilseed products. These substantial accomplishments advance the continued growth of the domestic industry place an important emphasis on environmental sustainability, address concerns for the safety and quality of our seafood supply, and increase market competitiveness.

Judging from the State of the industry today, USMSFC efforts continue to have measurable positive effect. Coastal farming continues to lead in the production of cultured shrimp in the United States, inland farming has added new dimensions and growth to the industry, and super-intensive production approaches are gaining momentum. Improvements in farm management practices coupled with the widespread use of disease-resistant stocks have resulted in bumper crops for the industry over the last several years.

With reliable production in place, we have also seen a commensurate geographic expansion of the industry within the United States from three to seven States in the last 10 years. A broader industry base, while increasing production through the addition of new farms, also provides additional protection to the industry by geographically isolating different regional sectors in the event of disease outbreaks or natural disaster. Significant amounts of shrimp are now being produced in Texas, South Carolina, Florida, Hawaii, Arizona, Alabama, and Arkansas. Several other States are now beginning to explore production with the newer, super-intensive technologies being developed.

In addition, the recent and growing worldwide switch to use of specific pathogen free (SPF) *L. vannamei* has created tremendous opportunity for U.S. shrimp broodstock suppliers. This switch has been caused by diseases overseas which have affected wild broodstock animals, lowering overall yield and profitability. The SPF concept for shrimp, pioneered by the USMSFC, has now been accepted worldwide and U.S. broodstock suppliers are being overwhelmed by orders for their stocks. For instance, in 2004, the State of Hawaii gave its exporter of the year award to a local company specializing in shrimp broodstock. Estimates are the world market for SPF stocks can reach near \$90 million yearly.

Industry Vulnerability

While exceptional progress has been made, this emerging industry is continually confronted with new challenges. The industry depends on the USMSFC for leadership and innovative technology development. As a result of development of high-

health and improved stocks, disease diagnosis, new feeds, and new production technologies and farming approaches, the domestic industry has maintained relative stability, while other countries have had major losses in their production due to diseases and environmental problems. Disease losses due to exotic viruses in Asia and Latin America during the past 6 years have approached \$6 billion USD.

Diseases present in imported commodity shrimp products threaten not only the emerging domestic shrimp farming industry, but also the Nation's native shrimp stocks. During 2004, limited disease outbreaks did occur in Texas and Hawaii that were caused by a breakdown in biosecurity protocols against imported shrimp products. A quick response of the USMSFP, working in concert with the USDA's Animal and Plant Health Inspection Services and other agencies in the State of Texas, helped identify and isolate these outbreaks, limit the spread, and minimize the loss in production nationwide. There were no reoccurrences or outbreaks of other disease in 2005.

While significant progress has been made in risk assessment and risk management with visible success, the industry and the USMSFC must remain constantly vigilant and proactive to further improve global competitiveness. In addition to providing significant input on the development of national and international regulatory standards for shrimp farmers, important service work for governmental agencies and NGOs keeps us continuously apprised of new developments pertaining to emerging regulations so that USMSFC research plans can be kept proactively responsive to dynamic shifts in industry needs.

The overwhelming threat facing the U.S. marine shrimp farming industry today is the significant decline in market prices for domestic shrimp due to a surge of foreign imports over the last 3 years. The decline has also seriously threatened the domestic shrimp harvest industry. Average U.S. farm gate prices have fallen 40 percent since then, constraining profitability and plans for industry expansion. Antidumping tariffs imposed in February 2005 have not nor are forecasted to stem the tide of rising imports, or improve domestic shrimp prices as intended. Affected buyers and distributors have largely absorbed those costs or producers have switched to product forms not covered by the tariffs. Moreover, other countries not named on the order have filled any voids with increased imports into the United States.

Concerns also have been heightened over food safety issues associated with unregulated use of antibiotics and fecal-borne contaminants due to questionable production practices in certain countries. Further, due to disease outbreaks worldwide, several foreign countries have switched production to the dominant species in the United States, eroding a previous competitive advantage. While it is important that a level playing field be created through reexamination of trade and food safety issues, more technologically advanced and innovative approaches are now critically needed to leverage U.S. industry gains, create competitive advantage, and improve profitability. Innovative ways need to be sought to offset low prices and to distinguish and add value to the domestic product to provide a competitive edge in the marketplace and to ensure the safety of the domestic seafood supply.

Industry Independence

In fact, despite recent price and profitability trends, investor confidence is rising as a result of the work of the Consortium. New farms are emerging utilizing new and improved technologies, while others are working in cooperation with the Consortium on more advanced approaches that are nearing fruition. In addition to supporting today's industry, our advanced, high-density biosecure shrimp production systems are now developed to the point for further expansion of shrimp farming into near-shore, inland/rural and desert sites away from the environmentally sensitive coastal zone. We now have in place the economic models that will appropriately direct research to ensure economic viability, taking in consideration all associated biological, regional, and economic risk factors. Importantly, these new production technologies produce the highest quality and safest shrimp, utilize U.S. grain and oilseed products for feed production, and do not pose any threat to the environment. These important traits of an evolving domestic industry can be exploited to gain competitive edge, offset declining prices, and ensure the quality and safety of shrimp for the consumer. Clearly, the U.S. shrimp farming industry has emerged solid from near collapse in the early 1990s, and appears well poised for a new phase of growth, provided the technologies and innovations are in place to support a larger, more diverse, and more competitive domestic industry for the new millennium.

To support existing efforts and technology transfer and plans for new dimensions to the research to address recent profitability issues, an increase in the current funding level from \$4.158 million to \$6 million is requested. The increase will be used to: strengthen the Consortium's biotechnology and molecular capabilities and activities to support rapid and more advanced disease monitoring and genetic selec-

tion efforts; accelerate the development of new genetic lines for market advantage; advance high-density production prototypes to commercial-scale testing; determine the mechanisms of disease immunity in shrimp for protection of both farmed and wild shrimp stocks; and address niche market technologies for competitive advantage. In addition to these needed technological innovations, increased funding will support new efforts to promote institutional innovations that will enable expansion and vertical integration of the domestic industry, including examination of regulatory impediments to shrimp aquaculture; the effect of farm insurance; development of cooperatives; and the socioeconomics of existing and advanced, high-density production systems.

Mr. Chairman, the U.S. shrimp farming industry and our Consortium deeply appreciate the support of the Committee and respectfully ask for a favorable consideration of this request.

PREPARED STATEMENT OF THE ORGANIC FARMING RESEARCH FOUNDATION (OFRF)

The Organic Farming Research Foundation (OFRF) has received support from the following federal grants and contracts during the period October 1, 2002 to present.

ENVIRONMENTAL PROTECTION AGENCY (EPA) STRATEGIC AGRICULTURE INITIATIVE (SAI)
GRANTS UNDER THE FOOD QUALITY PROTECTION ACT (FQPA)

REGION 9

Grant Agreement: X-97901601-0

Project Title: Organic Farming Research for Alternative Weed and Pest Management

Project Period: 10/01/2001—12/31/2003 amended to 6/30/2005

This assistance agreement provided full Environmental Protection Agency (EPA) funding in the amount of \$84,000. The project supported limited research in EPA Regions 8, 9 and 10 that investigated pest and weed management in organic farming systems to develop alternative approaches for managing pests and weeds without relying on agricultural chemicals.

Grant Agreement: X-97935601-0

Project Title: Pest and Weed Management

Project Period: 11/01/2001—12/31/2004

This assistance agreement provided full Environmental Protection Agency (EPA) funding in the amount of \$10,430. The project supported investigation and development of pest and weed management methods in organic farming systems for a variety of crops in EPA Region 9 to develop alternatives to synthetic agricultural chemicals.

REGION 5

Grant Agreement: X8-96562001-0

Project Title: Organic Farming Research Foundation

Project Period: 10/01/2004—9/30/2006

Environmental Protection Agency (EPA) funds in the amount of \$30,000 would be distributed through a competitive grants program for projects that investigate organic pest control alternatives to chemicals being reviewed under the Food Quality Protection Act. The Organic Farming Research Foundation proposed to use EPA funding to support research on organic farming practices for weed and insect pest management in IL, IN, MI, MN, OH, and WI and tribal Nations.

Grant Agreement: X8-96562001-1

Project Title: Organic Farming Research Foundation

Project Period: 10/01/2004—9/30/2006

Environmental Protection Agency (EPA) funds in the amount of \$30,000 would be distributed through a competitive grants program for projects that investigate organic pest control alternatives to chemicals being reviewed under the Food Quality Protection Act. The Organic Farming Research Foundation proposed to use EPA funding to support research on organic farming practices for weed and insect pest management in IL, IN, MI, MN, OH, and WI and tribal Nations.

REGION 8

Grant Agreement: X8-97815401-0

Project Title: Surveys, Studies, Investigations

Project Period: 10/01/2004—9/30/2006

Environmental Protection Agency (EPA) funds in the amount of \$40,000 support research on organic farming practices for weed and insect pest management in CO,

MT, ND, SD, UT, WY, and 27 Tribal Nations. Funds are channeled through OFRF's competitive grants program for projects that investigate organic pest control alternatives to chemicals being reviewed under the Food Quality Protection Act.

UNITED STATES DEPARTMENT OF AGRICULTURE (USDA)/INITIATIVE FOR FUTURE
AGRICULTURE AND FOOD SYSTEMS (IFAFS)

Subcontract RF740050 under the USDA/IFAFS Award Number: 00-52101-9691

Project Title: Revitalizing Small and Mid-Sized Farms: Organic Research, Education, and Extension

Project Period: 9/15/2000—9/30/2004 amended to 9/30/2005

USDA/IFAFS funding in the amount of \$221,038 to establish a consortium of universities, non-profit and grassroots farmers organizations that will revitalize small and mid-sized family farms by integrating multidisciplinary research, education, and extension of organic agriculture. The goal is to catalyze new opportunities for farmers including niche marketing of high-value horticultural and agronomic crops by expanding existing organic agriculture programs at three land grant institutions.

I, Brise Tencer, am submitting this testimony on behalf of the Board of Directors of the Organic Farming Research Foundation (OFRF) to detail our recommendations and requests for funding of several USDA marketing, research, and conservation programs of importance to organic agriculture.

The Organic Farming Research Foundation is a non-profit whose mission is to sponsor research related to organic farming practices, to disseminate research results to organic farmers and to growers interested in adopting organic production systems, and to educate the public and decision-makers about organic farming issues.

As you prepare your appropriations priorities for the fiscal year 2007 Agriculture, Rural Development and Related Agencies Appropriations bill, we request your support for the following organic programs. Development of organic production effectively serves USDA strategic objectives for environmental quality, human health and nutrition, and agricultural trade. Organic agriculture has experienced extraordinary growth over the last decade; the International Trade Center (UNCTAD/WTO) estimates that organic products represent 2–2.5 percent of total U.S. retail food sales. Because organic production improves profitability and market access, it is a desirable alternative for many producers and represents an important opportunity for growth in U.S. agriculture. The organic sector is extremely diverse in scale, technology, and market chains. Both ends of the scale spectrum are experiencing vibrant growth. The modest funding levels requested below will help these trends continue while providing a cost effective way to create positive returns for the environment and our economy.

USDA AGRICULTURAL RESEARCH SERVICE

\$10 Million for Strategic Regional Programming for Organic Agricultural Research

In 2005, USDA-ARS spent about \$3.5 million on organic-specific projects, or about .35 percent of \$1 billion fiscal year 2005 ARS expenditures. Under a 2 percent “fair share” framework, the ARS would have generated about \$20 million for organic research in its budget. The 2004 and 2005 appropriations omnibus bills contained language urging ARS to direct an increased amount of resources to organic. This report language was not a mandate and no significant increases in organic expenditures have been seen over the last several years.

For fiscal year 2007, OFRF recommends \$10 million for Strategic Regional Programming for Organic Agricultural Research. This funding would be part of an overall package of \$10 million total that would be distributed among the 8 Regional Areas (and the National Agricultural Library). Regional distribution of funds would provide flexibility to address the needs and opportunities of the organic production and processing sector. This approach would make progress towards the “fair share” goal and provide a bridge to the evolution of a national program for organic research. Funding will be allocated by the Area Directors (with stakeholder input) to (1) Maintain and enhance existing CRIS projects, scientists and technicians whose objectives are specific to organic production and processing; and (2) Provide support to integrate organic agriculture objectives into other projects and partnerships, where such capacity exists and when the objectives meet priority needs (e.g., as identified by the ARS National Organic Workshop held January, 2005 in Austin, Texas). The attached addendum to this request provides additional information about regional needs.

USDA COOPERATIVE STATE RESEARCH EDUCATION AND EXTENSION SERVICE

Organic Transitions Program: \$5 million

Over the last few years the Organic Transition research program has become one of the most competitive of the USDA CSREES integrated grant programs. Because of the high level of interest in this program, only about 10 percent of qualified applicants have been able to receive funding (compared to 19–29 percent of qualified applicants that receive funding in comparable grants programs at the USDA CSREES). We expect interest in this program to continue to grow. Expansion of this program should focus on a higher number of smaller grants. Also, it is important that this program keeps its own identity and not be incorporated into the National Research Initiative (NRI). We ask the committee to increase funding for Organic Transition program to \$5 million in 2007 and for it to remain as part of the Integrated Organic Program, distinct from the National Research Initiative.

National Research Institute (NRI): 30 percent directed to goals of the Initiative for Future Food and Agricultural Systems (IFAfS)

The IFAfS program has provided an important source of research funds for projects relevant to organic growers. The appropriation bills between fiscal year 2003 to fiscal year 2006 each prohibit USDA from spending money for IFAfS, but directed the Department to spend a 20 percent subset of the National Research Initiative competitive grants program “under the same terms and conditions” as IFAfS. For fiscal year 2007 we support the President’s request that 30 percent of NRI be directed to IFAfS goals. Additionally, we request the Committee include report language directing the USDA CSREES to direct a significant portion of these funds to organic research (including trade and economic policy topics) within the following program areas: Managed Ecosystems and Small and Mid sized Farm Viability and Rural Entrepreneurship through inclusion of language soliciting applications on organic research topics in the NRI requests for applications.

Sustainable Agriculture Research and Education (SARE): Chapter 1: \$15 million, Chapter 3: \$5 million

SARE funds farmer-driven research and outreach on profitable, environmentally sound farming practices, including organic production. SARE’s solid track record, regional structure, and close links between research and outreach mean that farmers nationwide get reliable information they need on how to stay in business while being environmentally responsible. In 2005 the SARE program was funded at Chap 1: \$9.2 million, Chap 3: \$3.8 million. For 2007 we seek \$15 million, \$5 million for Chapters 1 and 3, respectively.

USDA ECONOMIC RESEARCH SERVICE

Organic Production and Marketing Data Collection: \$750,000

Because increased ability to conduct economic analysis for the organic farming sector is greatly needed, we request \$750,000 be appropriated to the USDA Economic Research Service to implement the “Organic Production and Market Data Initiative” included in Section 7407 of the 2002 farm bill.

USDA NATIONAL AGRICULTURE STATISTICS SERVICE (NASS)

Census follow up—Organic Grower Survey: \$1 million

Unlike other sectors of agriculture, the organic industry has suffered from a lack of data collection and analysis, which has limited producers’ ability to respond to market trends. The USDA NASS is currently in the process of developing the 2007 agricultural census. Although they are making an effort to expand the quantity of organic questions in the census, they will need to conduct a follow up survey in order to collect more in-depth information on acreage, yield/production, inventory, production practices, sales and expenses, marketing channels, and demographics. We request \$1 million be appropriated to the USDA National Agriculture Statistics Service for collection of organic price information, authorized by the “Organic Production and Market Data Initiative” included in Section 7407 of the 2002 farm bill.

USDA AGRICULTURAL MARKETING SERVICE

Organic Price Collection: \$1 million

Wholesale and retail price information is critical to farmers and ranchers, but organic producers have fewer resources for price information than conventional producers. Organic price information is particularly important for insuring that organic producers receive appropriate payment from Federal crop insurance when they incur a loss. We request \$1 million be appropriated to the USDA Agricultural Mar-

keting Service for collection of organic price information, authorized by the “Organic Production and Market Data Initiative” included in Section 7407 of the 2002 farm bill.

Organic Certification Cost Sharer: \$1.5 million

For small to medium scale producers and handlers, the cost of organic certification can be a significant impediment to entry into the USDA Organic Program. The cost of the program are not confined to initial certification, in fact many small and medium sized producers often cite the ongoing annual cost burden of maintaining organic certification as an obstacle to staying in the USDA National Organic Program. The Organic Certification Cost Share Program was created to ease the cost burden of certification by providing up to 75 percent (to a maximum of \$500) of certification costs, but the \$5 million provided in the 2002 Farm Bill has now been expended at the Federal level (although a few states have some residual funding which they are still in the process of dispersing to producers or handlers). We urge the committee to direct \$1.5 million in funds of the Commodity Credit Corporation as a stopgap measure to continue the National Organic Certification Cost Share Program authorized in Section 10606 of the 2002 Farm Bill.

Organic Standards: \$3.13 million

The national organic standards, which have been in effect since October 31, 2002, provide a uniform national standard for the term “organic” that ensures consumer confidence in American organic products. The rules, however, will have little effect unless it is properly enforced thereby protecting both consumers and producers of organic products. Additional funding is needed to investigate complaints, on-site auditing of certifiers (for accreditation purposes), and certifier training programs. In fiscal year 2005, Congress appropriated \$2 million to AMS for Organic Standards. For 2007, we support the President’s request of \$3.13 million to expand enforcement and compliance of the National organic standards. Additionally, we request the following report language be included: “The Committee is encouraged that the Agency has hired an Executive Director for the National Organic Standards Board (NOSB), as well as a new Director for the National Organic Program. The Committee also notes that the audits performed by the American National Standards Institute (ANSI) in 2004 and by the USDA Office of Inspector General (OIG) in 2005 made strong recommendations about changes needed in the administration of the National Organic Program. The Committee expects the Agency to take the necessary actions to comply with these recommendations, and to provide a written report to the Committee by December of 2006 regarding the progress in implementing these recommendations. In addition, the Committee expects to be kept abreast of the complaints that the NOP has received about violations of the organic standards, and the progress of the Agency in investigating and responding to those complaints. Finally, the Committee expects the NOP to work closely with the NOSB to implement the Peer Review Panel requirements of OPFA and USDA’s organic regulations.”

USDA NATURAL RESOURCES CONSERVATION SERVICE

Conservation Security Program (Csp): Full Funding

The Conservation Security Program is a comprehensive stewardship incentives program that provides financial and technical assistance to farmers and ranchers nationwide to reward them for creating public benefits such as clean water, clean air, wildlife habitat, and long-term carbon storage. Such assistance is of particular importance to the organic producers, many of whom already implement practices outlined in this program. We seek full funding for the CSP as a nationwide conservation entitlement program.

Environmental Quality Incentives Program (Equip): Language supporting incentive payments for transitioning to organic production

The Environmental Quality Incentives Program (EQIP) is a voluntary conservation program for farmers and ranchers that promotes agricultural production and environmental quality as compatible national goals. EQIP offers financial and technical help to assist eligible participants install or implement structural and management practices on eligible agricultural land.

Incentive payments may be provided for up to three years to encourage producers to carry out management practices they may not otherwise use without the incentive. Some states, including Massachusetts, Montana, and Minnesota have used incentive payments to support producers transitioning to organic production. These transition incentives payment programs assist farmers who choose to convert new acreage to organic production. To qualify, farmers must apply at their local NRCS offices, file organic system plans, and be inspected by a USDA-accredited certifying

agent. We urge the Committee to encourage more states to make such programs available by adding language that says: “funds may be used for incentive payments for transition to organic production”.

USDA RURAL BUSINESS-COOPERATIVE SERVICE

Appropriate Technology Transfer for Rural Areas (ATTRA): \$3.9 million

ATTRA, is a national sustainable agriculture information service managed by the National Center for Appropriate Technology. It provides information and other technical assistance to farmers, ranchers, Extension agents, educators, and others involved in sustainable agriculture in the United States. The ATTRA website receives hundreds of thousands of visitors annually. Often written in response to questions from organic farmers, the ATTRA publications cover specific issues about the most widely produced organic crops. With the continued rapid growth of the organic industry, we anticipate an increase in demand for ATTRA services in the coming year. Because ATTRA specifically provides accurate and up-to-date technical information relating to organic agricultural practices we request that it be funded at \$3.9 million.

Thank you for your consideration of these requests. Supporting organic agriculture, by appropriating adequate funding for these programs provides critical, cost-effective benefits for U.S. producers and consumers.

PREPARED STATEMENT OF THE ORGANIZATION FOR THE PROMOTION AND
ADVANCEMENT OF SMALL TELECOMMUNICATIONS COMPANIES

SUMMARY OF REQUEST

The Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) seeks the Subcommittee's support for fiscal year 2007 loan levels for the telecommunications loans program administered by the Rural Utilities Service (RUS) in the following amounts:

[Millions of dollars]

5 percent hardship loans	145
Treasury rate loans	250
Guaranteed loans	¹ 300

¹ Note: The \$300 million requested for guaranteed loans includes \$175 million in funding that was previously available through the Rural Telephone Bank (RTB). The dissolution of the RTB necessitates additional funds for RUS telecommunications loans in order to maintain the level of funds available to rural telecommunications borrowers.

In addition, OPASTCO requests that the distance learning, telemedicine, and broadband program be funded at sufficient levels.

OPASTCO is a national trade association of approximately 550 small telecommunications carriers serving primarily rural areas of the United States. Its members, which include both commercial companies and cooperatives, together serve over 3.5 million customers in 47 States.

Perhaps at no time since the inception of the RUS (formerly the REA) has the telecommunications loans program been so vital to the future of rural America. The telecommunications industry is at a crossroads, both in terms of technology and public policy. Rapid advances in telecommunications technology in recent years have begun to deliver on the promise of a new “information age.” Both federal and state policymakers have made deployment of advanced communications services a top priority. However, without continued support of RUS's telecommunications loans program, rural telephone companies will be hard pressed to continue building the infrastructure necessary to bring their communities into this new age and achieve policymakers' objectives.

Contrary to the belief of some critics, RUS's job is not finished. Actually, in a sense, it has just begun. We have entered a time when advanced services and technology—such as fiber-to-the-home, high-speed packet and digital switching equipment, and digital subscriber line technology—are expected by customers in all areas of the country, both urban and rural. Moreover, the ability of consumers to use increasingly popular Voice over Internet Protocol (VoIP) services requires that they first have a broadband connection from a facilities-based carrier. Unfortunately, the inherently higher costs of upgrading the rural wireline network, both for voice and data communications, has not abated.

Rural telecommunications continues to be more capital intensive and involves fewer paying customers than its urban counterpart. In the FCC's September 2004 report on the deployment of advanced telecommunications capability, the Commis-

sion correctly noted that “[r]ural areas are typically characterized by sparse and disperse populations, great distances between the customer and the service provider, and difficult terrain. These factors present a unique set of difficulties for providers attempting to deploy broadband services.” Thus, in order for rural telephone companies to continue modernizing their networks and providing consumers with advanced services at reasonable rates, they must have access to reliable low-cost financing.

The relative isolation of rural areas increases the value of telecommunications for these citizens. Telecommunications enables applications such as high-speed Internet connectivity, distance learning, and telemedicine that can alleviate or eliminate some rural disadvantages. A modern telecommunications infrastructure can also make rural areas attractive for some businesses and result in revitalization of the rural economy. For example, businesses such as telemarketing and tourism can thrive in rural areas, and telecommuting can become a realistic employment option. Certainly, telecommunications plays a major role in any rural community’s economic development strategy, with the existence of modern and advanced telecommunications infrastructure being a major enabling factor in the development of small business and manufacturing enterprises in rural areas.

While it has been said many times before, it bears repeating that RUS’s telecommunications loans program is not a grant program. The funds loaned by RUS are used to leverage substantial private capital, creating public/private partnerships. For a very small cost, the government is encouraging tremendous amounts of private investment in rural telecommunications infrastructure. Most importantly, the program is tremendously successful. Borrowers actually build the infrastructure and the government is reimbursed with interest.

In addition to RUS’s telecommunications loans program, OPASTCO supports adequate funding of the distance learning, telemedicine, and broadband program. Through distance learning, rural students gain access to advanced classes which will help them prepare for college and jobs of the future. Telemedicine provides rural residents with access to quality health care services without traveling great distances to urban hospitals. Furthermore, funding that is targeted to finance the installation of broadband transmission capacity will allow more rural communities to gain high-speed access to the Internet and receive other advanced services. In light of the Telecommunications Act’s purpose of encouraging deployment of advanced technologies and services to all Americans—including schools and health care providers—sufficient targeted funding for these purposes is essential in fiscal year 2007.

CONCLUSION

The development of the nationwide telecommunications network into an information superhighway, as envisioned by policymakers, will help rural America survive and prosper in any market—whether local, regional, national, or global. However, without the availability of low-cost RUS funds, building the information superhighway in communities that are isolated and thinly populated will be untenable. By supporting the RUS telecommunications programs at the requested levels, the Subcommittee will be making a significant contribution to the future of rural America.

PREPARED STATEMENT OF THE PICKLE PACKERS INTERNATIONAL, INC.

The pickled vegetable industry strongly supports and encourages your committee in its work of maintaining and guiding the Agricultural Research Service. To accomplish the goal of improved health and quality of life for the American people, the health action agencies of this country continue to encourage increased consumption of fruits and vegetables in our diets. Accumulating evidence from the epidemiology and biochemistry of heart disease, cancer and diabetes supports this policy. Vitamins (particularly A, C, and folic acid) and a variety of antioxidant phytochemicals in plant foods are thought to be the basis for correlation’s between high fruit and vegetable consumption and reduced incidence of these debilitating and deadly diseases. The problem is that many Americans choose not to consume the variety and quantities of fruits and vegetables that are needed for better health.

As an association representing processors that produce over 85 percent of the tonnage of pickled vegetables in North America, it is our goal to produce new products that increase the competitiveness of U.S. agriculture as well as meet the demands of an increasingly diverse U.S. population. The profit margins of growers continue to be narrowed by foreign competition. Likewise, the people of this country represent an ever-broadening array of expectations, tastes and preferences derived from

many cultural backgrounds. Everyone, however, faces the common dilemma that food costs should remain stable and preparation time continues to be squeezed by the other demands of life. This industry can grow by meeting these expectations and demands with reasonably priced products of good texture and flavor that are high in nutritional value, low in negative environmental impacts, and produced with assured safety from pathogenic microorganisms and from those who would use food as a vehicle for terror. With strong research to back us up, we believe our industry can make a greater contribution toward reducing product costs and improving human diets and health.

Many small to medium sized growers and processing operations are involved in the pickled vegetable industry. We grow and process a group of vegetable crops, including cucumbers, peppers, carrots, onions, garlic, cauliflower, cabbage (Sauerkraut) and Brussels sprouts, which are referred to as minor crops. None of these crops is in any "commodity program" and as such, do not rely upon taxpayer subsidies. However, current farm value for just cucumbers, onions and garlic is \$2.3 billion with an estimated processed value of \$5.8 billion. These crops represent important sources of income to farmers, and the processing operations are important employers in rural communities around the United States. Growers, processing plant employees and employees of suppliers to this industry reside in all 50 States. To realize its potential in the rapidly changing American economy, this industry will rely upon a growing stream of appropriately directed basic and applied research from four important research programs within the Agricultural Research Service.

VEGETABLE CROPS RESEARCH LABORATORY, MADISON, WISCONSIN

The USDA/ARS Vegetable Crops Research Lab at the University of Wisconsin is the only USDA research unit dedicated to the genetic improvement of cucumbers, carrots, onions and garlic. Three scientists in this unit account for approximately half of the total U.S. public breeding and genetics research on these crops. Their past efforts have yielded cucumber, carrot and onion cultivars and breeding stocks that are widely used by the U.S. vegetable industry (i.e., growers, processors, and seed companies). These varieties account for over half of the farm yield produced by these crops today. All U.S. seed companies rely upon this program for developing new varieties, because ARS programs seek to introduce economically important traits (e.g., virus and nematode resistance) not available in commercial varieties using long-term high risk research efforts. The U.S. vegetable seed industry develops new varieties of cucumbers, carrots, onions, and garlic and over twenty other vegetables used by thousands of vegetable growers. The U.S. vegetable seed, grower, and processing industry, relies upon the USDA/ARS Vegetable Crops Research Lab for unique genetic stocks to improve varieties in the same way the U.S. health care and pharmaceutical industries depend on fundamental research from the National Institutes of Health. Their innovations meet long-term needs and bring innovations in these crops for the United States and export markets, for which the United States has successfully competed. Past accomplishments by this USDA group have been cornerstones for the U.S. vegetable industry that have resulted in increased profitability, and improved product nutrition and quality.

Both consumers and the vegetable production and processing industry would like to see fewer pesticides applied to food and into the environment in a cost-effective manner. Scientists in this unit have developed a genetic resistance for many major vegetable diseases that are perhaps the most important threat to sustained production of a marketable crop for all vegetables. Genetic resistance assures sustainable crop production for growers and reduces pesticide residues in our food and environment. Value of this genetic resistance developed by the vegetable crops unit is estimated at \$670 million per year in increased crop production, not to mention environmental benefits due to reduction in pesticide use. New research progress initiated in the 1990s and continuing today in Madison has resulted in cucumbers with improved disease resistance, pickling quality and suitability for machine harvesting. New sources of genetic resistance to viral and fungal diseases, environmental stress resistance like heat and cold, and higher yield have recently been mapped on cucumber chromosomes to provide a ready tool for our seed industry to significantly accelerate the development of resistant cultivars for U.S. growers. Nematodes in the soil deform carrot roots to reduce yield from 10 percent to over 70 percent in major production areas. A new genetic resistance to nematode attack was recently discovered and found to almost completely protect the carrot crop from one major nematode. This group improved both consumer quality and processing quality of vegetables with a resulting increase in production efficiency and consumer appeal. This product was founded on carrot germplasm developed in Madison, Wisconsin. Carrots provide approximately 30 percent of the U.S. dietary vitamin A. With new carrots

that have been developed, nutritional value of this crop has tripled, including the development of nutrient-rich cucumbers with increased levels of provitamin A. Using new biotechnological methods, a system for rapidly and simply identifying seed production ability in onions has been developed that reduces the breeding process up to 6 years! A genetic map of onion flavor and nutrition will be used to develop onions that are more appealing and healthy for consumers. Garlic is a crop familiar to all consumers, but it has not been possible to breed new garlic varieties until a new technique for garlic seed production was recently developed and is now being bred like other crops.

There are still serious vegetable production problems which need attention. For example, losses of cucumbers, onions, and carrots in the field due to attack by pathogens and pests remains high, nutritional quality needs to be significantly improved and U.S. production value and export markets could certainly be enhanced. Genetic improvement of all the attributes of these valuable crops are at hand through the unique USDA lines and populations (i.e., germplasm) that are available and the new biotechnological methodologies that are being developed by the group. The achievement of these goals will involve the utilization of a wide range of biological diversity available in the germplasm collections for these crops. Classical plant breeding methods combined with bio-technological tools such as DNA marker-assisted selection and genome maps of cucumber, carrot and onion will be the methods to implement these genetic improvements. With this, new high-value vegetable products based upon genetic improvements developed by our USDA laboratories can offer vegetable processors and growers expanded economic opportunities for United States and export markets.

U.S. FOOD FERMENTATION LABORATORY, RALEIGH, NORTH CAROLINA

The USDA/ARS Food Fermentation Laboratory in Raleigh, NC is the major public laboratory that this industry looks to as a source for new scientific information on the safety of our products and development of new processing technologies related to fermented and acidified vegetables. Over the years this laboratory has been a source for innovations, which have helped industry remain competitive in the current global trade environment. We expect the research done in this laboratory to lead to new processing and product ideas that will increase the economic value of this industry and provide consumers with safe, high quality, healthful vegetable products.

To maintain the current level of research we request that Congress restore the funding increases provided in the fiscal year 2004 (\$270,000) and fiscal year 2005 (\$100,000) budgets. It is very important that Congress restore the full \$370,000 in the fiscal year 2007 budget, since the funds were not included in the budget sent to the Congress.

We seek additional funding to support two new research directions for this laboratory that have substantial economic potential for our industry and health benefits for the American public. These are: (1) Preservation of a variety of high nutrient/high antioxidant vegetables using fermentation or acidification techniques so as to maintain the natural levels of beneficial phytochemicals in convenient to use value-added products; (2) development of techniques to deliver living pro-biotic microorganisms to consumers in fermented or acidified vegetable products.

Certain vitamins and beneficial phytochemicals in vegetables are stabilized by the low pH in acidified and fermented foods. In addition, low pH makes it possible to preserve vegetables with low heat or, ideally, no heat. While many high nutrient/high antioxidant vegetables are pickled to a very limited extent, traditional processes typically include steps that lose many of the health-promoting components that diet authorities emphasize when they urge people to increase their consumption of fruits and vegetables. The objective will be develop new acid preservation techniques for broccoli, Brussel sprouts, sweet potato, cauliflower, and peppers that will provide high levels of vitamin C, folic acid, carotenoids, glucosinolates, and phenolic compounds to maximize the health benefits of these vegetables in products that are convenient and attractive to consumers.

Most of what we hear about bacteria in foods concerns the pathogens that cause disease. However, lactic acid bacteria are intentionally grown in fermented foods because they are needed to give foods like sauerkraut, yoghurt, cheeses, and fermented salami the characteristic flavors and textures that we desire. There is a growing body of research to indicate that certain living lactic acid bacteria are probiotic and can improve human health by remaining in the intestinal tract after they are consumed. Fermented or acidified vegetables may be a good way to deliver such pro-biotic bacteria to consumers. The objective will be to identify pro-biotic lactic acid bacteria that can survive in high numbers in selected vegetable products and

investigate the potential for using vegetables as healthful delivery vehicles for probiotic organisms.

SUGAR BEET AND BEAN RESEARCH UNIT, EAST LANSING, MICHIGAN

The USDA/ARS cucumber post harvest engineering research at East Lansing, Michigan, is the only federally funded program that is devoted to developing new and/or improved engineering methods and technology for assessing, retaining, and assuring post harvest quality, marketability, and wholesomeness of pickling cucumbers and other vegetable products. The cucumber post harvest engineering research is one component of the post harvest engineering research program within the Sugar Beet and Bean Research Unit in East Lansing, Michigan. The post harvest engineering research program currently has a full-time research agricultural engineer whose primary research is to develop methods and technology for assessing and assuring post harvest quality of tree fruits. Because of severe under-funding, the location's cucumber post harvest engineering research has not been carried out at the full scope it would have been expected. A postdoctoral research associate has been hired to conduct research on developing nondestructive technology for assessing and grading pickling cucumbers and other vegetables. The ARS East Lansing location has been internationally recognized for developing innovative, practical engineering methods and techniques to improve harvest and post harvest handling systems for vegetables and tree fruits. The location recently developed a new laser-based multi-spectral imaging technology for grading and sorting fruit for texture and soluble solids content. The technology has the potential for inspecting a variety of vegetable crops including cucumbers. The location also developed an advanced hyper-spectral imaging system for automated detection of defects and quality attributes of fruit, which could be used for pickling cucumber inspection.

Today, consumers have increasing choices of foods and they are demanding for better, consistent safe products. Defective and inferior cucumbers/vegetables will lead to poor quality, inconsistent pickled products and can cause significant economic losses to growers and processors. An effective quality control and assurance system throughout the handling steps between harvest and retail is required for the pickling industry to provide consistent, superior products to the marketplace. Methods currently available for measuring and grading quality of cucumbers and other vegetables are either ineffective or time consuming. New and/or improved technologies are needed to assess, inspect and grade fresh cucumbers rapidly and accurately for various internal and external quality characteristics so that raw products can be directed to, or removed from, appropriate processing or marketing avenues. This will minimize post harvest losses of food that has already been produced and ensure high quality, consistent final product and end-user satisfaction. Current research at East Lansing is focused on developing rapid inspection techniques for detecting and segregating defective cucumbers to assure the keeping and processing quality of pickling cucumbers. The research will lead to new inspection and grading technology that will help the pickling industry in delivering high-quality safe products to the marketplace. To enhance research on the development of engineering methods and technology for assuring post harvest quality and marketability of pickled and vegetable products, a full-time research scientist (engineering) will be needed for the ARS East Lansing research program.

U.S. VEGETABLE LABORATORY, CHARLESTON, SOUTH CAROLINA

The research program at the USDA/ARS Vegetable Laboratory in Charleston, South Carolina, addresses national problems in vegetable crop production and protection with emphasis on the southeastern United States. This research program is internationally recognized for its accomplishments, which have resulted in development of over 150 new vegetable varieties and lines along with the development of many new and improved disease and pest management practices. This laboratory's program currently addresses 14 vegetable crops including those in the cabbage, cucumber, and pepper families, which are of major importance to the pickling industry. The mission of the laboratory is to (a) develop disease and pest resistant vegetable crops and (b) develop new, reliable, environmentally sound disease and pest management programs that do not rely on conventional pesticides.

Continued expansion of the Charleston program is crucial. Vegetable growers depend heavily on synthetic pesticides to control diseases and pests. Cancellation and/or restrictions on the use of many effective pesticide compounds are having a considerable influence on the future of vegetable crop production. Without the use of certain pesticides, growers will experience crop failures unless other effective, non-pesticide control methods are found quickly. The research on improved, more efficient and environmentally compatible vegetable production practices and genetically re-

sistant varieties at the U.S. Vegetable Laboratory continues to be absolutely essential. This gives U.S. growers the competitive edge they must have to sustain and keep this important industry and allow it to expand in the face of increasing foreign competition.

FUNDING NEEDS FOR THE FUTURE

It remains critical that funding continues the forward momentum in pickled vegetable research that the United States now enjoys and to increase funding levels as warranted by planned expansion of research projects to maintain U.S. competitiveness. We also understand that discretionary funds are now used to meet the rising fixed costs associated with each location. Additional funding is needed at the Wisconsin and South Carolina programs for genetic improvement of crops essential to the pickled vegetable industry, and at North Carolina and Michigan for development of environmentally-sensitive technologies for improved safety and value to the consumer of our products. The fermented and acidified vegetable industry is receptive to capital investment in order to remain competitive, but only if that investment is economically justified. The research needed to justify such capital investment involves both short term (6–24 months) and long term (2–10 years or longer) commitments. The diverse array of companies making up our industry assumes responsibility for short-term research, but the expense and risk are too great for individual companies to commit to the long-term research needed to insure future competitiveness. The pickled vegetable industry currently supports research efforts at Wisconsin and North Carolina and anticipates funding work at South Carolina and Michigan as scientists are put in place. Donations of supplies and processing equipment from processors and affiliated industries have continued for many years.

U.S. Vegetable Laboratory, Charleston, South Carolina

The newly constructed laboratory-office building at the U.S. Vegetable Laboratory was occupied in April 2003. Design of the accompanying greenhouse and head house using the funds appropriated for this purpose in fiscal year 2003 was completed in July 2004. In fiscal year 2004, construction of the head house component of this project was funded. The head house component of the project is now under construction with an expected completion in late spring 2006. In fiscal year 2005, \$2.976 million was appropriated for construction of greenhouses. In fiscal year 2006, an additional \$1.980 million was appropriated for construction of greenhouses, but \$7.169 million is still needed for the planned \$12.125 million greenhouse complex. This new facility replaces and consolidates outmoded laboratory areas that were housed in 1930s-era buildings and trailers. Completion of the total research complex will provide for the effective continuation and expansion of the excellent vegetable crops research program that has been conducted by the Agricultural Research Service at Charleston for over 60 years. It is most critical to the mission of the U.S. Vegetable Laboratory that the fiscal year 2002, fiscal year 2003, and fiscal year 2004 appropriated funds for expansion of the Charleston research staff is maintained in fiscal year 2007. In addition, new funds are still needed to hire additional scientists to expand the research program. An Entomologist is needed to facilitate development of host resistance and new management approaches to a wider range of established insect pests of vegetable crops; a Molecular Biologist is needed to develop and utilize molecular techniques for pathogen and pest population studies necessary to development of new management approaches and resistant genetic stocks. Both of these new scientific positions will greatly contribute to the accomplishment of research that will provide for the effective protection of vegetable crops from disease and pests without the use of conventional pesticides. Each of these positions requires a funding level of \$400,000 for their establishment.

Appropriations to restore	Fiscal year	Gross funds impacted
Minor Use Pesticides (IR-4) .....	.....	\$5,335
U.S. Vegetable Laboratory	2003	484,969
U.S. Vegetable Laboratory	2004	263,597
Total funds to restore .....	.....	753,901

New Scientific Staff Needed	Current Status	New Funds Needed
Entomologist	Needed	\$400,000

New Scientific Staff Needed	Current Status	New Funds Needed
Molecular Biologist	Needed	400,000
New funds needed .....	.....	800,000

Food Fermentation Laboratory, Raleigh, North Carolina

The current funding for the laboratory is \$1,274,000. This includes the new funds provided in fiscal year 2004 (\$270,000) and in fiscal year 2005 (\$100,000) that are not in the fiscal year 2007 budget proposal that was sent to the Congress. We request that the additional funding provided by the Congress in fiscal year 2004 and fiscal year 2005 be restored in the fiscal year 2007 budget.

To initiate and then increase the research initiatives to preserve high nutrient/high antioxidant vegetables to maximize healthful components and to determine how to deliver living pro-biotic lactic acid bacteria in acidified and fermented vegetable products, we request additional support for the Food Fermentation Laboratory of \$100,000 in fiscal year 2007 with the expectation that an additional \$100,000 be added each year from fiscal year 2008 through fiscal year 2011. This will provide an ability to have an orderly growth of research effort in these areas by supporting Post-Doctoral or Pre-Doctoral research associates initially and then hiring a permanent scientist in the third or fourth year to provide a long term research capability in the most productive research areas.

Scientific staff	Current status	Funds needed
Microbiologist	Active	\$318,500
Chemist	Active	318,500
Food technologist/biochemist	Active	318,500
Microbial Physiologist	Active	318,500
Fiscal year 2007 post-doctoral or predoctoral research associates	Needed	100,000
Total funding required .....	.....	1,374,000
Presidential Budget (fiscal year 2007) .....	.....	912,195
Appropriations to restore .....	.....	361,805
New funds needed .....	.....	100,000

Vegetable Crops Research Laboratory Unit, Madison, Wisconsin

Current base funding for three scientists is \$835,900, of which \$200,000 was added in fiscal year 2002. An additional \$64,100 is needed to fully fund the scientists and support staff, including graduate students and post-doctorates.

Scientific staff in place	Current status	Funds needed
Geneticist	Active	\$300,000
Horticulturist	Active	300,000
Geneticist	Active	300,000
Total funding required .....	.....	900,000
Presidential Budget (fiscal year 2007) .....	.....	641,911
Appropriations to restore .....	.....	193,989
New funds needed .....	.....	64,100

A temporary addition of \$200,000 was provided to enhance the research effort of this program in fiscal year 2002, and we greatly appreciate that additional support, but that addition is being proposed for reduction in fiscal year 2007. Thus, the restoration of the funds proposed for reduction, is urgently requested. We request a \$258,089 permanent addition this year to sustain the long-term research of this group.

Sugar Beet and Bean Research Unit, East Lansing, Michigan

The location urgently needs to hire a full-time research engineer to develop a comprehensive research program on nondestructive inspection, sorting and grading of pickling cucumbers and other vegetable crops to assure the processing and keeping quality of pickled products. The current base funding for the cucumber engineering

research is \$200,000. An increase of \$100,000 in the current base funding level would be needed to fund the research engineer position.

Scientific staff in place	Current status	Funds needed
Postdoctoral Research Associate	Active	\$200,000
Research Engineer	Needed	100,000
Total funding required .....	.....	300,000
Current Funding .....	.....	200,000
New funds needed .....	.....	100,000

Thank you for your consideration and expression of support for the USDA/ARS.

PREPARED STATEMENT OF THE RED RIVER VALLEY ASSOCIATION

Mr. Chairman and members of the Committee, I am Wayne Dowd, and I am pleased to represent the Red River Valley Association as its President. Our organization was founded in 1925 with the express purpose of uniting the citizens of Arkansas, Louisiana, Oklahoma and Texas to develop the land and water resources of the Red River Basin. (Enclosure 1)

The Resolutions contained herein were adopted by the Association during its 81st Annual Meeting in Bossier City, Louisiana on February 24, 2006, and represent the combined concerns of the citizens of the Red River Basin Area as they pertain to the goals of the Association. (Enclosure 2)

As an organization that knows the value of our precious water resources we support the most beneficial water and land conservation programs administered through the Natural Resources Conservation Service (NRCS). We understand that attention and resources must be given to our national security and the war in Iraq; however, we cannot sacrifice what has been accomplished on our Nation's lands. NRCS programs are a model of how conservation programs should be administered and our testimony will address the needs of the Nation as well as our region.

The President's fiscal year 2007 budget for NRCS indicates a decrease of \$216.4 million (21.5 percent decrease) from what Congress appropriated in fiscal year 2006. In addition, the Administration eliminated two crucial watershed programs: Watershed & Flood Prevention Operations and Watershed Survey & Planning. Along with drastic reductions in the other programs, NRCS manpower for fiscal year 2007 would have to decrease by over 1,500 staff years, if the President's budget is implemented. This is unacceptable.

This means that NRCS assistance to landowners will not be adequately funded, to the detriment of the Nation and our natural resources. We would like to address several of the programs administered by NRCS. Failure to adequately fund these initiatives would reduce assistance to those who want it and the resources that need protection.

Conservation Operations.—This account has been in steady decline, in real dollars, over the past several years. The President's budget included \$745 million, which is a decrease of \$94.5 million from what you appropriated in fiscal year 2006. Mandated increases in pay and benefits, continuing increases in the cost of doing business' and budget reductions greatly reduces the effective work that can be accomplished in this account. Allocations should be increased not decreased.

We request a total of \$930 million be appropriated for Conservation Operations for NRCS to meet the demands it faces today.

Conservation Technical Assistance is the foundation of technical support and a sound, scientific delivery system for voluntary conservation to the private users and owners of lands in the United States. It is imperative that we provide assistance to all working lands' not just those fortunate few who are able to enroll in a Federal program. Working lands are not just crops and pasture (commodity staples) but includes forests, wildlife habitat and coastal marshes. The problem is that NRCS personnel funded from mandatory programs' can only provide technical assistance to those enrolled in these programs, leaving the majority of the agricultural community without technical assistance. We recommend that adequate funding be placed in 'Conservation Technical Assistance', and allow NRCS to provide assistance to all who are in need of assistance.

It is our understanding that the Technical Service Providers (TSP) program has not lived up to its expectations. Experience indicates landowners are hesitant to use the program. This program funds projects at a level estimated if NRCS conducted

the work. Usually the TSP cost exceeds this estimate and the landowner is responsible for the difference, effectively making the landowner cost share. We believe that TSPs should be used only after NRCS staffing is brought up to levels commensurate with the increase in workload caused by the Farm Bill, not to replace NRCS staffing.

Watershed and Flood Prevention Operations (Public Law 566 & 534).—We are greatly disappointed that the President's Budget provided no funding for watershed operations. There is no doubt that this is a Federal responsibility, in conjunction with a local sponsor. This program addresses all watershed needs to include: flood protection, water quality, water supply and the ecosystem. There is no Corps of Engineer, Bureau of Reclamation or FEMA program to address small watershed needs, before disaster strikes. We recommend that Congress continue to hold oversight hearings to understand the importance and hear how popular this program is to our communities.

These projects have developed a \$15 billion infrastructure that is providing \$1.5 billion in annual benefits to over 48 million people. It is not a Federal program, but a Federally assisted program. This partnership between local communities, State agencies and NRCS has been successful for over 50 years. It would take \$1.6 billion to fund the existing Federal commitment to local project sponsors. This cost only increases every year if adequate funding is not provided.

If you allow this program to end, all ongoing contracts will be terminated. This will ultimately lead to lawsuits and tort claims filed by both sponsors and contractors, due to the Federal government not fulfilling its contractual obligation.

We are very appreciative for the funding level of \$75 million enacted in fiscal year 2006. It is reassuring to know that both the House and Senate realize the importance of this program to the agricultural community. For every \$1 spent, the Nation realizes \$2 in benefits.

There are many new projects, which are awaiting funds for construction under this program. We strongly recommend that a funding level of \$190 million be appropriated for Watershed Operations Programs, Public Law 534 (\$20 million) and Public Law 566 (\$170 million).

The Red River has proven, through studies and existing irrigation, to be a great water source for supplemental irrigation. The two projects mentioned below, will use existing, natural bayous to deliver water for landowners to draw from. The majority of expense will be for the pump system to take water from the Red River to the bayous. These projects will provide the ability to move from ground water dependency to surface water, an effort encouraged throughout the Nation. Both will enhance the environmental quality and economic vitality of the small communities adjacent to the projects.

—*Walnut Bayou Irrigation Project, AR.*—Plans and specifications have been completed and it is ready to proceed into the construction phase. An irrigation district has been formed and they are prepared to take on the responsibility to generate the income for the O&M required to support this project. We request that \$4,000,000 be appropriated for these projects in fiscal year 2007.

—*Red Bayou Irrigation Project, LA.*—The plans and specifications have been completed, making this project ready for construction in fiscal year 2007. An irrigation district has been formed and is prepared to collect funds to support the O&M for this proposed system. We request that \$2,500,000 be specifically appropriated to begin construction in fiscal year 2007.

Watershed Rehabilitation.—More than 10,400 individual watershed structures have been installed nationally, with approximately one-third in the Red River Valley. They have contributed greatly to conservation, environmental protection and enhancement, economic development and the social well being of our communities. More than half of these structures are over 30 years old and several hundred are approaching their 50-year life expectancy. Today you hear a lot about the watershed approach to resource management. They protect more people and communities from flooding now than when they were first constructed. The benefit to cost ratio for this program has been evaluated to be 2.2:1. What other Federal program can claim such success?

In the next 5 years over 900 watershed structures will require over \$570 million for rehabilitation. Each year this number increases as more dams reach their 50-year life. There is no questioning the value of this program. The cost of losing this infrastructure exceeds the cost to reinvest in our existing watersheds. Without repairing and upgrading the safety of existing structures, we miss the opportunity to keep our communities alive and prosperous. It would be irresponsible to dismantle a program that has demonstrated such great return and is supported by our citizens. We cannot wait for a catastrophe to occur, where life is lost, to decide to take on this important work.

The President's budget neglects the safety and well being of our community needs by allocating only \$15 million for this program. This is drastically lower than the levels authorized in the 2002 Farm Bill, which authorized \$600 million for rehabilitation for 2003–2007.

We request that \$65 million be appropriated to provide financial and technical assistance to those watershed projects where sponsors are prepared (35 percent cost share) to commence rehabilitation.

Watershed Survey and Planning.—In fiscal year 2006, \$6.1 million was appropriated to support this extremely important community program. NRCS has become a facilitator for the different community interest groups, State and Federal agencies. In our States such studies are helping identify resource needs and solutions where populations are encroaching into rural areas. The Administration decided to eliminate this program. We disagree with this and ask Congress to fund this program at the appropriate level.

Proper planning and cooperative efforts can prevent problems and insure that water resource issues are addressed. Zeroing out the planning process assumes the economy will not grow and there is no need for future projects. We do not believe anyone supports or believes this. Another serious outcome is that NRCS will lose its planning expertise, which is invaluable.

We request this program be funded at a level of \$35 million.

We request that the following two studies be specifically identified and funded in the fiscal year 2007 appropriation bill.

—*Maniece Bayou Irrigation Project, AR.*—This is a project in its initial stage of planning. An irrigation district is being formed to be the local sponsor. This project transfers water from the Red River into Maniece Bayou where landowners would draw water for supplemental irrigation. We request that \$200,000 be appropriated to initiate the plans and specifications.

—*Lower Cane River Irrigation Project, LA.*—The transfer of water from the Red River to the Lower Cane River will provide opportunities for irrigation and economic development. Funds are needed to initiate a Cooperative River Basin Study. We request that \$250,000 be appropriated for this study.

Resource Conservation and Development (RC&D).—This has traditionally been a well-received program by the Administration, not this year. Their budget proposal only had \$27 million, far short of national needs. This program leverages its resources at 4 to 1, with communities, local sponsors and non-government organizations. The benefits are realized at over 14 to 1, average per project. What other Federal program can claim such a return on investment?

We request that \$51 million be appropriated for this program, at the same level as in fiscal year 2006.

Mandatory Accounts (CCC) Technical Assistance (TA).—Request for assistance through the CCC programs has been overwhelming. Requests far exceed the available funds and place an additional workload on NRCS's delivery system. Adequate funding for TA must be provided at the full cost for program delivery. This includes program administration, conservation planning and contracting with each applicant. Congress, in the 2002 Farm Bill, wisely increased conservation programs each year. This increased investment, with the multi-year CCC programs, will increase the NRCS workload. It is imperative that NRCS receive the TA funding levels required to administer these programs. If they do not receive full funding these programs will not realize their full capability.

It has been mandated that a set percent of TA, from the CCC Program, must be used for TSPs, approximately \$40 million. This is equivalent to losing 600 staff years from NRCS manpower. This is another unacceptable policy, which will reduce the effectiveness of NRCS. This mandate must be eliminated.

Over 70 percent of our land is privately owned. This is important in order to understand the need for NRCS programs and technical assistance. Their presence is vital to ensuring sound technical standards are met in conservation. These programs not only address agricultural production, but sound natural resource management. Without these programs and NRCS properly staffed to implement them, many private landowners will not be served adequately to apply conservation measures needed to sustain our natural resources for future generations. Technical Assistance cannot be contracted out to private companies.

We are all aware of the issue with TMDL levels in our waterways. If our Nation is to seriously address this we must look at the impacts from our farmlands. Assistance for land treatment plans and plan implementation is exactly what the NRCS Watershed programs are intended to address. Watershed programs should be receiving an increase in funds, not zeroed out!

With these new clean water initiatives why do we ignore the agency that has a proven record for implementing watershed conservation programs? Congress must

decide; will NRCS continue to provide the leadership within our communities to build upon the partnerships already established? It is up to Congress to insure NRCS is properly funded and staffed to provide the needed assistance to our taxpayers for conservation programs.

These NRCS studies and watershed projects are an example of true “cooperative conservation” initiatives. There is an interface with communities and local sponsors at each step of the process and local sponsors do cost share at the levels expected of them.

All these programs apply to the citizens in the Red River Valley and their future is our concern. The RRVA is dedicated to work toward the programs that will benefit our citizens and provide for high quality of life standards. We therefore request that you appropriate the requested funding within these individual programs, to insure our Nation’s conservation needs are met.

I thank you for the opportunity to present this testimony on behalf of the members of the Red River Valley Association and we pledge our support to assist you in the appropriation process.

ENCLOSURE 1.—RED RIVER VALLEY ASSOCIATION

The Red River Valley Association is a voluntary group of citizens bonded together to advance the economic development and future well being of the citizens of the four State Red River Basin area in Arkansas, Louisiana, Oklahoma and Texas.

For the past 80 years, the Association has done notable work in the support and advancement of programs to develop the land and water resources of the Valley to the beneficial use of all the people. To this end, the Red River Valley Association offers its full support and assistance to the various Port Authorities, Chambers of Commerce, Economic Development Districts, Municipalities and other local governmental entities in developing the area along the Red River.

The Resolutions contained herein were adopted by the Association during its 80th Annual Meeting in Bossier City, Louisiana on February 24, 2005, and represent the combined concerns of the citizens of the Red River Basin area as they pertain to the goals of the Association, specifically:

- Economic and Community Development
- Environmental Restoration
- Flood Control
- Irrigation
- Bank Stabilization
- A Clean Water Supply for Municipal, Industrial and Agricultural Uses
- Hydroelectric Power Generation
- Recreation
- Navigation

The Red River Valley Association is aware of the constraints on the Federal budget, and has kept those constraints in mind as these Resolutions were adopted. Therefore, and because of the far-reaching regional and national benefits addressed by the various projects covered in the Resolutions, we urge the members of Congress to review the materials contained herein and give serious consideration to funding the projects at the levels requested.

ENCLOSURE 2.—RED RIVER VALLEY ASSOCIATION FISCAL YEAR 2007 APPROPRIATIONS— NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

[Thousands of dollars]

Discretionary accounts	Fiscal year 2006 approp.	Fiscal year 2007 request	Pres. 2007 bud- get
Conservation Operations	839,519	930,000	745,000
Watershed & Flood Prevention Operations	75,000	190,000	.....
Walnut Bayou Irrigation Project, AR .....	.....	4,000	.....
Red Bayou Irrigation Project, LA .....	.....	1,600	.....
Watershed Rehabilitation	31,516	65,000	15,000
Watershed Survey & Planning	6,083	35,000	.....
Maniece Bayou Irrigation Project, AR .....	.....	200	.....
North Wallace Lake Watershed, LA .....	.....	250	.....
Resource Conservation & Development (RC&D)	51,300	51,000	27,000
Healthy Forest Reserve Program	2,475	5,000	2,475

PREPARED STATEMENT OF THE SOCIETY FOR ANIMAL PROTECTION LEGISLATION

\$1.5 Million for the Animal Welfare Information Center (AWIC) at the National Agricultural Library

The Animal Welfare Information Center was established by the Improved Standards for Laboratory Animals Act (the 1985 amendment to the Animal Welfare Act) to serve as a clearinghouse, training center and educational resource for institutions using animals in research, testing and teaching. A primary purpose of the Center is to help research laboratories comply with the requirements of the Federal law. The Center provides data on alleviating or reducing pain and distress in experimental animals (including anesthetic and analgesic procedures), reducing the number of animals who must be used for research where possible, and identifying alternatives to the use of animals for specific research projects. The AWIC was also charged with providing information to prevent the unintended duplication of animal experiments.

We greatly appreciate the past support Congress has provided to the AWIC to carry out its programs: \$750,000 and an add-on of \$400,000. It is essential to maintain the existing level of support therefore a minimum base of \$1.15 million is needed on an annual basis. We are respectfully requesting an additional \$350,000 for desperately needed expansion in fiscal year 2007 including increased educational workshops and exhibits presented throughout the United States, increased production and printing of educational material and increased staffing to meet the demand for services.

There is general consensus between the biomedical research industry and the animal welfare community about the need for increased funding. In fact, myriad individuals representing these disparate interests have agreed on the need for \$1.5 million in funding for the Animal Welfare Information Center (see attached letter). The AWIC is able to help improve the conduct of research, including the care provided to the animals who are used, thereby ensuring a reduction in variables which might skew the research. Better science is the end result.

The \$1,500,000 would be used as follows: staff salary and benefits (\$1,073,000), exhibitions conducted at major scientific conferences (\$53,600), preparation and conduct of educational workshops across the country (\$16,800), educational workshops conducted at the Center (\$4,100), printing and reproduction of paper and electronic material (\$29,200), training for the NAL staff (\$13,900), acquisition of, including electronic access to, data (\$38,000), internet services (\$20,400), office supplies including hardware and software (\$26,000) and the overhead that must be provided to the Agricultural Research Service and the National Agricultural Library (at least \$225,000).

The Center's mandate necessitates the collection and dissemination of material on humane housing and husbandry, the functions and responsibilities of Institutional Animal Care and Use Committees (IACUCs), animal behavior, improved methodologies, psychological well-being of primates and exercise for dogs. The AWIC has expanded to include the broader industry regulated under the Animal Welfare Act: animal dealers, carriers and handlers, zoos and other exhibitors. Other topics covered by the Center include animal diseases, animal models, animal training and environmental enrichment for all species. USDA Animal Care's veterinary medical officers and animal care inspectors are able to utilize the full range of services provided by the AWIC to better fulfill their responsibilities.

The AWIC is the single most important resource for helping research facility personnel meet their responsibilities under the Animal Welfare Act. There are more than 1,200 research facilities nationwide, and the services of the AWIC are available to all individuals at these institutions including the cage washers, animal technicians, research investigators, attending veterinarians, IACUC representatives including the nonaffiliated member, and the Institutional Official. The Office of Inspector General (OIG) audit titled "APHIS Animal Care Program Inspection and Enforcement Activities" cited an increase in apparent violations of the AWA by research facilities over the past few years. There appears to be a significant problem with the oversight provided IACUCs and training for IACUC members is encouraged. In response to this need, we are requesting funds to allow—for the first time—AWIC to conduct workshops at locations around the country rather than being limited to conducting them only from the Center's base in Maryland.

The AWIC website (<http://www.nal.usda.gov/awic>) received more than 27 million hits in fiscal year 2005 (one of the most accessed sites at the NAL). 300,000 documents were distributed via the web and more than 12,000 hard copies were distributed as well. Exhibitions and/or presentations were provided at the following venues: American Association for Laboratory Animal Science (AALAS) annual meeting, National Capital Area Branch AALAS, Tribbranch AALAS, Society of Neuro-

science, New Jersey Association for Biomedical Research, American Veterinary Medical Association, Combined Animal Science meeting, International Conference on Environmental Enrichment, American Association for the Advancement of Science and the 5th World Congress on the Use of Animals in the Life Sciences, Scientists Center for Animal Welfare meetings and the Public Responsibility in Medicine and Research annual meeting.

The AWIC works closely with both APHIS Animal Care and with Emergency Veterinary Services on emerging crises such as the highly pathogenic Avian Influenza. The Center is focused on transmissible spongiform encephalopathy, exotic Avian Newcastle disease, tuberculosis, West Nile Virus and micro-bacterial diseases too.

A proposal was made to create a "Center for Excellence" within Animal Care, but we oppose this effort as an enormous misuse of funds. There is no need to pay for a site and hire new staff because much of the work proposed for such a Center for Excellence is already covered effectively and efficiently by the AWIC. We would, however, support further expansion of the AWIC at its current location within the National Agricultural Library. The AWIC has a record spanning nearly two decades that demonstrates its abilities to serve.

\$19.143 Million for APHIS/Animal Care's Enforcement of the Animal Welfare Act

The Animal Welfare Act (AWA) is the chief Federal law for the protection of animals. The USDA seeks compliance with its minimum standards for the care and treatment of animals during transportation and at the nearly 13,000 sites of dealers, research, testing and teaching facilities, zoos, aquariums, circuses, carriers (airlines, motor freight lines and other shipping businesses) and handlers (ground freight handlers). There are a mere 101 Veterinary Medical Officers (VMOs) and Animal Care Inspectors (ACIs) conducting searches, pre-licensing inspections and enforcement inspections across the country.

In fiscal year 2005, 575 cases were brought regarding violations of the AWA and more than \$1.1 million dollars was received in fines and stipulations. These enforcement actions help ensure the protection of both animals and people as evidenced by the OIG Audit released this fall.

We support the President's request for \$19.143 million for enforcement of the AWA. We hope the additional funds will permit USDA to hire 15 additional inspectors and to conduct a national meeting (with all inspectors in attendance). There were insufficient funds for USDA to conduct a workshop this fiscal year, and a national meeting must be held next year; it is vital as it provides proper training of inspectors and ensures a high and equal standard of enforcement is being implemented by the field inspectors nationwide. The cost for a national meeting is expected to be \$150,000.

In 1966 the Laboratory Animal Welfare Act (later renamed the Animal Welfare Act) was adopted in an effort to prevent the sale of lost or stolen pets into research. Nevertheless, this has continued to be a serious problem. Sound enforcement by USDA has reduced the number of random source dealers in live dogs and cats to 10. More than half of these are currently under investigation by USDA for their failure to comply with the law. A recent Home Box Office documentary film, *Dealing Dogs*, highlighted the problems that plague this cottage industry. The committee could save Animal Care significant resources and aggravation if it brought an end to this illicit trade by including report language prohibiting the sale of dogs and cats to research by random source dealers. Animals needed for research purposes can be obtained from other sources including licensed breeders. This would ensure integrity in the supply of dogs and cats for research purposes.

\$750,000 for APHIS/Animal Care's Enforcement of the Horse Protection Act

More than thirty years have passed since the Horse Protection Act was adopted by Congress, yet soring of Tennessee Walking Horses continues to be a widespread problem. Soring is defined by APHIS as "the application of any chemical or mechanical agent used on any limb of a horse or any practice inflicted upon the horse that can be expected to cause it physical pain or distress when moving." Horses are sored to produce an exaggerated gait.

The most effective method of reducing the showing of horses who have been sored is to have Animal Care (AC) inspectors present at the shows. Oftentimes, as soon as an AC inspector arrives at a show, there is a rush to put horses back into trailers and haul them away. If the likelihood that an AC inspector will show up increases significantly, this will have a huge deterrent effect on those who routinely sore their horses.

AC was only able to attend 32 events in fiscal year 2004 out of a total of approximately 865 shows. \$750,000 (\$500,000 plus a \$250,000 add-on) must be provided to enable AC to attend even a modest number of events.

Unfortunately, the amount of penalties assessed for violations of the law have dropped to a negligible amount. In addition to increasing the presence of inspectors, USDA must increase the penalties which are assessed or the industry will continue to defy the law with impunity.

Lack of financial support has made it necessary for Animal Care to rely heavily on the industry to assume responsibility for enforcement of the law. This is the same industry that has turned a blind eye to compliance with the law since 1970! "Designated Qualified Persons" (DQPs) are the "inspectors" from industry who are supposed to assist AC in identifying sore horses and pursuing action against the individuals who are responsible. The history of the DQPs reveals their failure to achieve the level of enforcement of the unbiased, well-trained, professional inspectors who work for AC. Following is data for horses shown with pads on their front feet to accentuate their gait: in calendar year 2001 (the most recent year for which such information is available from USDA); the average rate at which DQPs identified violations for soring was 3.4 per 1,000 horses inspected. The rate of violations reported when government inspectors were present to oversee the activities of the DQPs was more than 5 times higher—19 per 1,000 horses inspected.

We have few current figures on enforcement, however, we recently learned from USDA that in 2005 of the samples taken by a gas chromatography machine (used to test for use of illegal substances to sore horses) at the Kentucky Celebration horse show, 100 percent indicated the presence of diesel fuel or another similar fuel plus numbing agents. Clearly the law is not being taken seriously by the industry.

An appropriation of at least \$750,000 is essential to permit AC to maintain a modest level of compliance with the Horse Protection Act by trained AC professionals.

Strengthened Enforcement of Humane Slaughter Act by FSIS

When President Eisenhower signed the Humane Slaughter Act (HSA) into law he noted that if he went by his mail he would think Americans were interested in no other issue. The concern about HSA enforcement continues today and is as broad now as it was then. Over the past few years the Congress has generously provided additional appropriations to the Food Safety and Inspection Service (FSIS) to improve enforcement of the Humane Slaughter Act, however, problems persist. A big part of the problem is that the vast majority of animals currently slaughtered at the approximately 900 federally inspected plants are not observed by FSIS until after they are already dead.

In addition, FSIS inspectors are discouraged from enforcing the law. Inspectors are supposed to be able to stop the slaughter line if violations are seen. However, stopping the line will markedly reduce the plant's financial profits, thus there is intense pressure for the inspector not to take action. The situation at plants appears to be cozy for people, meanwhile the animals are suffering. For example, the Office of the Inspector General conducted an investigation of a large plant in Iowa, issuing a report on April 25, 2005, which concluded that: "employees of AGRI had engaged in acts of inhumane slaughter. It was also determined that FSIS employees observed the acts of inhumane slaughter and did nothing to stop the practice. Additionally, the investigation revealed that FSIS inspectors accepted meat products from AGRI employees and that FSIS employees engaged in other acts of misconduct."

FSIS has attempted a variety of machinations in an effort to dupe Congress into believing that enforcement efforts have increased dramatically. This is mere window dressing, and inspectors who are in the plants have confirmed that little has changed—and abuses are rife. The situation at Agriprocessors, described above is but one example (http://awionline.org/pubs/Quarterly/05_54_1/541p7a.htm). Because of this, we vehemently oppose increased resources for FSIS. The agency hasn't demonstrated its resolve to strongly enforce the law.

Bill language should direct FSIS to hire no fewer than 50 individual inspectors (as opposed to FTE's) to serve as permanent fixtures in each of the largest slaughter plants to observe the handling, stunning and slaughter of animals for compliance with the law. When inspectors are not present, line speeds are increased and the operations are conducted in a completely different (and horrific) manner. A full-time presence is the only way to ensure compliance. FSIS should report the results of this effort to the Committee and evaluate the effectiveness of having full-time (not full time equivalent) enforcement of the humane slaughter requirements following a year of diligence. All inspectors who engage in HSA enforcement must receive adequate training about the law and, more importantly, must receive a strict mandate from the Secretary of Agriculture to take strong, immediate action against any violators of the HSA. This would be a modest step toward protecting the millions of animals who are killed for food from unnecessary suffering.

Congress Needs to Provide Increased Oversight of Wildlife Services Operations and Research

Wildlife Services (WS) needs to utilize a variety of tools for management of wildlife under its purview. However, it is essential that these tools are effective and publicly acceptable. As improved tools are developed through research, operations must make use of this data and shift methods accordingly.

WS needs to phase out of use of steel jaw leghold traps. WS' own research demonstrates the archaic nature of certain leghold traps; these should be prohibited immediately. Leghold traps slam shut with bone-crushing force on the limbs of their victims, tearing ligaments and tendons, severing toes and causing excruciating pain. These traps, opposed by the vast majority of Americans, have been condemned as "inhumane" by the American Veterinary Medical Association, the American Animal Hospital Association, the World Veterinary Association and the National Animal Control Association.

The European Union (E.U.) banned use of the barbaric steel jaw leghold trap so that 88 countries now prohibit their use. Nobly, the EU went a step further; the EU law also prohibits import of furs from countries that use steel jaw traps. On December 11, 1997, in response to this European law, the U.S. Trade Representative reached an "Understanding" with the E.U. in which the United States agreed to end use of "all jaw-type leghold restraining traps" by 2002 on muskrat and nutria and to phase out use of "conventional steel-jawed leghold restraining traps" by 2004. WS has the responsibility of complying with this United States obligation by ending its use of these barbaric devices.

WS should pursue no further testing of leghold traps as this would be an extremely wasteful and cruel use of taxpayer money. Previously, funds designated for trap research were merely passed on to a nongovernmental organization to utilize as it saw fit, without involvement from WS. If funds are allocated for trap testing, WS should conduct the research since the agency has the appropriate technical expertise.

Further, WS should adopt a policy of checking all restraining traps within a 24-hour period. A wealth of scientific studies documents the fact that the longer an animal is in a restraining trap, the greater the injury. For this reason, the majority of States have a daily trap check requirement. Animals should not be subjected to long-drawn out pain because of a failure to assume the responsibility of carefully checking traps every day. This policy will help reduce the trauma experienced by non-target animals, too, ensuring that more of these animals will be able to be released alive.

Thank you very much for the opportunity to submit testimony. We would be happy to provide any additional information that might be of interest.

PREPARED STATEMENT OF THE SOCIETY FOR WOMEN'S HEALTH RESEARCH AND
WOMEN'S HEALTH RESEARCH COALITION

On the behalf of the Society for Women's Health Research and the Women's Health Research Coalition, we are pleased to submit testimony in support of increased funding for biomedical research, and more specifically women's health research.

The Society is the only national non-profit women's health organization whose mission is to improve the health of women through research, education, and advocacy. Founded in 1990, the Society brought to national attention the need for the appropriate inclusion of women in major medical research studies and the need for more information about conditions affecting women disproportionately, predominately, or differently than men.

The Coalition was created by the Society in 1999 to give a voice to scientists and researchers from across the country who are concerned and committed to improving women's health research. The Coalition now has more than 620 members, including leaders within the scientific community and medical researchers from many of the country's leading universities and medical centers, directors from various Centers of Excellence on Women's Health.

The Society and the Coalition are committed to advancing the health status of women through the discovery of new and useful scientific knowledge. We believe that sustained funding for the women's health research programs that are conducted and supported across the Federal research agencies is necessary if we are to accommodate the health needs of the population and advance the Nation's research capability. Therefore, we urge your support for the Food and Drug Administration's (FDA) Office of Women's Health and request funding of \$5 million in order that it may meet its program goals.

FOOD AND DRUG ADMINISTRATION OFFICE OF WOMEN'S HEALTH

The Office of Women's Health (OWH) role at FDA is critical to women's health, both within and outside the agency and to research into sex and gender-differences, areas in which the Society long has been a proponent. The office aims to provide scientific and policy expertise on gender sensitive regulatory and oversight issues; to correct gender disparities in the areas for which the FDA is responsible—drugs, devices, and biologics and to monitor women's health priorities, providing leadership and an integrated approach across the agency. The OWH accomplishes its admirable work, despite inadequate budgets that prevent it from fully accomplishing its mission.

Since its inception, OWH has funded high quality scientific research to serve as the foundation for agency activities that improve women's health. To date, OWH has distributed \$12 million in funding for over 100 research projects. OWH has recently funded research to fully understand heart disease in women. Despite being the number one killer, women with heart disease face misdiagnosis, delayed diagnosis, under-treatment, and mistreatment due to the under-representation in heart-related research studies. Extramural research funded by OWH is looking into the use of coronary stents in women and problems with breast interference in interpreting heart catheterization studies.

We would encourage OWH to expand its research focus to further address the discrepancies in heart disease treatment for women. The Society in conjunction with WomenHeart: the National Coalition for Women with Heart Disease compiled a list of ten questions that must be answered if women are to receive optimal cardiovascular care and treatment. The ten unanswered research questions are:

- Why do women receive significantly fewer referrals for advanced diagnostic testing and treatments for heart disease than men, and how can the referral rate for women be increased?
- What are the best tools and methods for assessing women's risk of heart disease?
- What are the best strategies for preventing heart disease in women?
- What treatments for heart disease work best for women?
- What are the most effective methods and treatments for diastolic heart failure, which is the most common form of congestive heart failure in women?
- How can the heart disease diagnosis and care disparities between white women and women of color be eliminated?
- What are the biological differences between men and women in the location, type, and heart disease risk level associated with fat deposits, and what determines these differences?
- How do sex differences in the regulation of heart rhythm affect risk of heart disease and response to treatment?
- What is the role of inflammation in heart disease in women?
- Why are women ages 50 and younger more likely to die following a heart attack than men of the same age?

As part of its educational outreach efforts to consumers, OWH worked closely with women's advocacy and health professional organizations to address some of the confusing issues related to the findings of the Women's Health Initiative Study. As a result of this OWH initiative, an informational fact sheet about menopause and hormones and a purse-size questionnaire for women to review with their doctor were distributed to national and local print, radio, and Internet advertisements. The FDA website received over 3 million hits to download campaign materials.

In 2001, the Society submitted testimony on behalf of the OWH and in support of a centralized database at the FDA to coordinate clinical trial oversight, monitor the inclusion of women in clinical trials, oversee the parameters of informed consent, and identify training needs for all scientific agency staff who analyze human clinical trials. Due to Society efforts and this Committee's commitment, in 2002 Congress provided the OWH at the FDA with funds to develop an agency-wide database focused on women's health activities to include demographic data on clinical trials. The FDA has been developing this database now known as the "Demographic Information and Data Repository" to review clinical studies, enhance product labeling, identify knowledge gaps, and coordinate data collection.

While progress has been made, the database is far from up and running. Currently, the FDA receives large volumes of information in applications from drug manufacturers for review and evaluation. The FDA reviewers must comb through the submitted drug trial reports and digital data in as many as twelve formats in order to evaluate a new drug's safety and effectiveness. With no uniform system or database, reviewers must handpick gender, age, and ethnicity information from stacks of reports and craft their own data comparisons. This is time consuming,

makes the review process less efficient, and delays access to important information. Scientific and medical advances are occurring rapidly and the public needs and deserves access to the most recent and accurate information regarding their health. Therefore, in order to fully capitalize on the potential of the data warehouse and the resulting wealth of information, we urge Congress to commit \$1 million for the Demographic Information and Data Repository.

Scientists have long known of the anatomical differences between men and women, but only within the past decade have they begun to uncover significant biological and physiological differences. Sex differences have been found everywhere from the composition of bone matter and the experience of pain to the metabolism of certain drugs and the rate of neurotransmitter synthesis in the brain. Sex-based biology, the study of biological and physiological differences between men and women, has revolutionized the way that the scientific community views the sexes, with even more information forthcoming as a result of the recent sequencing of the human X chromosome. The evidence is overwhelming, and as researchers continue to find more and complex biological differences, they are gaining a greater understanding of the biological and physiological composition of both sexes.

The Society has long recognized that the inclusion of women in study populations by itself was insufficient to address the inequities in our knowledge of human biology and medicine, and that only by the careful study of sex differences at all levels, from genes to behavior, would science achieve the goal of optimal health care for both men and women.

The differences between men and women are important in disease susceptibility, prevalence, time of onset and severity and are evident in cancer, obesity, coronary heart disease, autoimmune, mental health disorders, and other illnesses. Physiological and hormonal fluctuations may also play a role in the rate of drug metabolism and effectiveness of response in females and males. This research must be both encouraged and supported.

In addition, the Society encourages the establishment of drug-labeling requirements that ensure labels include language about differences experienced by women and men. Furthermore, we advocate for research on the comparative effectiveness of drugs with specific emphasis on data analysis by sex. When available, this information should also be specified on drug labels.

Our country's drug development process has succeeded in providing new and improved medications to ensure the health of both women and men. However, there is no mandated requirement that the data acquired during research of a new drug's safety and efficacy be analyzed as a function of sex, to evaluate potentially important differences in females versus males. Similarly, there are no requirements that information regarding the action of drugs in various populations (e.g., women requiring a lower dosage because of different rates of absorption or chemical breakdown) be included in prescription drug labeling or other patient educational and instructional materials. In order for patients to be an informed participant in their own care, they should have access to all available pertinent information.

Proper drug labeling may not always provide the complete solution. If the drug is not one newly approved or if sex-specific information is detected only in post-marketing studies, the drug label will not convey the sex-specific information discovered to the prescribing physician, and it may be difficult to get such new information incorporated into physicians' prescribing habits.

The Society believes the opportunity is now before us to communicate the sex differences data discovered from clinical trials to the medical community and to consumers through drug labeling and packaging inserts, and other forms of alerts. As part of advancing the analysis and reporting of sex-based effects, the Society encourages the FDA to continue addressing the need for accurate drug labeling to identify important sex and gender differences, as well as to ensure that appropriate data analysis of post-market surveillance reporting for these differences is placed in the hands of physicians and ultimately the patient.

To ensure adequate analysis and recording of sex and gender disparities in drugs, devices and biologics, and to provide for appropriate regulatory policy and accurate drug labeling, we believe that the OWH at the FDA should be funded at a total of \$5 million so that this Office can create, implement, and coordinate gender sensitive programs vital to women and men throughout the Nation.

In conclusion, Mr. Chairman, we thank you and this Committee for its strong record of support for women's health. We look forward to continuing to work with you to build a healthier future for all Americans.

PREPARED STATEMENT OF THE SOCIETY OF AMERICAN FORESTERS, NATIONAL ASSOCIATION OF STATE FORESTERS, THE NATURE CONSERVANCY, AND NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE

Dear Mr. Chairman/Ranking Member: The Society of American Foresters, National Association of State Foresters, The Nature Conservancy, and the National Association of State Departments of Agriculture urge the Subcommittee on Agriculture, Rural Development, and Related Agencies to increase funding substantially for the USDA Animal and Plant Health Inspection Service (APHIS) Emerging Plant Pests program. A sharp increase in funding is necessary in order to ensure adequate funding for eradication and control efforts targeting the emerald ash borer, Asian longhorned beetle, and sudden oak death. All three introduced organisms threaten forest and amenity trees and related economic activities worth hundreds of billions of dollars.

This statement of common goals supplements individual letters to the Subcommittee submitted by several of these organizations. These individual letters address additional issues which we do not include here.

We seek an appropriation of \$55 million for fiscal year 2007 to contain the emerald ash borer. The emerald ash borer threatens twelve species of ash across the continent, especially in the upper Midwest and Southeast. At risk are the \$25 billion ash timber industry in the Northeast and street trees across the Nation valued at \$20 to \$60 billion. The emerald ash borer outbreak is large, but the core of the infestation remains in the lower peninsula of Michigan—where it is largely contained by the Great Lakes. It is absolutely essential that APHIS receive adequate funding in fiscal year 2007 to enable affected states to eradicate the limited and isolated outbreaks found in Ohio, Indiana, and Michigan's Upper Peninsula. It is also crucial that APHIS and its partners carry forward detection surveys and regulatory and educational programs aimed at preventing movement of infested firewood, nursery stock, and other materials that spread the insect. Once the outlying outbreaks are eradicated, officials can begin efforts to quash the core outbreak in Michigan.

We seek an appropriation of \$30 million for fiscal year 2007 to carry forward eradication of the sole remaining populations of the Asian longhorned beetle. The Asian longhorned beetle poses an alarming threat to hardwood forests reaching from New England into Minnesota and in the West, and to the hardwood timber, maple syrup, and autumn foliage tourism industries dependent on these forests. Also at risk are street trees across the Nation valued at \$600 billion. Eradication has been successful in Chicago, proving the efficacy of this approach. Beetle populations in New Jersey are well on track for eradication. Only the populations in New York persist—and that is because funding for the New York effort has been reduced in past years to focus the inadequate overall resources on Illinois and New Jersey. It is essential to provide sufficient funding now and in coming years to complete eradication in New York.

We seek \$9 million in appropriations for fiscal year 2007 to contain a third damaging forest pest, sudden oak death (also called the phytophthora leaf and stem blight). If sudden oak death does escape confinement, it threatens oaks in forests in Oregon and Washington as well as throughout the Appalachians, Ozarks, and even into southern New England. This disease is also a major threat to the Nation's nursery industry as it readily attacks species such as rhododendron and other species used in the garden nursery business. Spread of sudden oak death is thus of enormous consequence to both native forests and the garden nursery business. In its impact on the oak species, it has the potential to devastate critical forage for many wildlife species as well.

Additional forest pests introduced into the United States and recently identified are currently being reviewed by scientific experts convened by APHIS and the USDA Forest Service. The most prominent example is the Sirex wood wasp, now present in New York, which threatens valuable pine timber resources, including those of the Southeast and eastern United States. The scientists' conclusions regarding the wood wasp and other species might result in additional funding needs.

The Society of American Foresters, National Association of State Foresters, The Nature Conservancy, and the National Association of State Departments of Agriculture strongly support the Congress' numerous statements urging the Administration to release emergency funds from the Commodity Credit Corporation sufficient to enable full implementation of management plans for the exotic threats to our forest resources.

Action now at the funding level requested would help ensure that these forest pests do not reach populations so large as to threaten forest, amenity trees, garden nursery stock, and related economic activities worth hundreds of billions of dollars.

PREPARED STATEMENT THE WYOMING STATE ENGINEER'S OFFICE

Dear Chairman Bennett and Ranking Member Kohl: This letter is sent in support of the designation of 2.5 percent of the fiscal year 2007 Environmental Quality Incentive Program (EQIP) funding for the Department of Agriculture's Colorado River Salinity Control (CRSC) Program. Pursuant to Public Law 104-127, the USDA's CRSC Program is a component program within EQIP. Wyoming views the inclusion of the CRSC Program in EQIP as a direct recognition on the part of Congress of the Federal commitment to maintenance of the water quality standards for salinity in the Colorado River—and that the Secretary of Agriculture has a vital role in meeting that commitment.

The State of Wyoming is a member State of the seven-State Colorado River Basin Salinity Control Forum. Established in 1973 to coordinate with the Federal Government on the maintenance of the basin-wide Water Quality Standards for Salinity in the Colorado River System, the Forum is composed of gubernatorial representatives and serves as a liaison between the seven States and the Secretaries of the Interior and Agriculture and the Administrator of the Environmental Protection Agency. The Forum advises the Federal agencies on the progress of efforts to control the salinity of the Colorado River and annually makes funding recommendations, including the amount believed necessary to be expended by the USDA for its on-farm CRSC Program. Overall, the combined efforts of the Basin States, the Bureau of Reclamation and the Department of Agriculture have resulted in one of the nation's most successful non-point source control programs.

The Colorado River provides municipal and industrial water for 27 million people and irrigation water to nearly 4 million acres of land in the United States. The River is also the water source for some 2.3 million people and 500,000 acres in Mexico. Limitations on users' abilities to make the greatest use of that water supply due to the River's high concentration of total dissolved solids (hereafter referred to as the salinity of the water) are a major concern in both the United States and Mexico. Salinity in the water source especially affects agricultural, municipal, and industrial water users. While economic detriments and damages in Mexico are unquantified, the Bureau of Reclamation presently estimates salinity-related damages in the United States to amount to \$330 million per year. The River's high salt content is in almost equal part due to naturally occurring geologic features that include subsurface salt formations and discharging saline springs; and the resultant concentrating effects of our users' man's storage, use and reuse of the waters of the River system. Over-application of irrigation water by agriculture is a large contributor of salt to the Colorado River as irrigation water moves below the crop root zone, seeps through saline soils and then returns to the river system.

In close cooperation with the EPA and pursuant to requirements of the Clean Water Act, every three years the Forum prepares a formal report analyzing the salinity of the Colorado River, anticipated future salinity, and the program elements necessary to keep the salinity concentrations (measured at Total Dissolved Solids—TDS) at or below the levels measured in the river system in 1972 at Imperial Dam, and below Parker and Hoover Dams. In setting water quality standards for the Colorado River system, the salinity concentrations at these three locations have been identified as the numeric criteria. The plan necessary for controlling salinity and reducing downstream damages has been captioned the "Plan of Implementation." The 2005 Review of water quality standards includes an updated Plan of Implementation. In order to eliminate the shortfall in salinity control resulting from inadequate Federal funding for the last several years from the USDA, the Forum has determined that implementation of the Program needs to be accelerated. The level of appropriation requested in this testimony is in keeping with the agreed upon plan.

The Department of Agriculture's CRSC Program is an important proven and cost-effective tool in improving irrigation water application and thus reducing salt loading into the Colorado River system. For the past 22 years, the seven-State Colorado River Basin Salinity Control Forum has actively assisted the U.S. Department of Agriculture in implementing its unique, collaborative and important program. With the enactment of the Federal Agriculture Improvement and Reform Act of 1996 (FAIR), the Congress directed that the Program should be implemented as one of the components of the Environmental Quality Incentives Program (EQIP). Since the enactment of the Farm Security and Rural Investment Act (FSRIA) in 2002, there is, for the first time, an opportunity to adequately fund the Program within the EQIP. At its recent October 2006 meeting, the Forum recommended that the USDA CRSC Program should expend 2.5 percent of the Environmental Quality Incentive Program funding. In the Forum's judgment, this amount of funding is necessary to implement the needed program. "Catch-up" funding in the future will require expending greater sums of money, increase the likelihood that the numeric salinity

criteria are exceeded, and create undue burdens and difficulties for one of the most successful Federal/State cooperative non-point source pollution control programs in the United States. The Colorado River Basin Salinity Control Advisory Council has taken the position that the funding for the salinity control program should not be below \$20 million per year. Over the last 3 fiscal years, for the first time, funding almost reached the needed level. The amount of State and local cost-sharing that can be applied in each given fiscal year is driven by the amount of Federal appropriations and the EQIP allocation. In fiscal year 2006, the participating basin States will cost share with about \$8.3 million and local agriculture producers will add another \$7.5 million. Hence, it is anticipated that in fiscal year 2006 the State and local contributions will be 45 percent of the total program.

The State of Wyoming greatly appreciates the Subcommittee's support of the Colorado River Salinity Control Program in past years. We continue to believe this important basin-wide water quality improvement program merits support by your Subcommittee. We request that your Subcommittee direct the allocation of 2.5 percent of the Environmental Quality Incentives Program funding for the USDA's CRSC Program during fiscal year 2007. Thank you in advance for your consideration of this statement and its inclusion in the formal record for fiscal year 2007 appropriations.

PREPARED STATEMENT OF THE U.S. APPLE ASSOCIATION

The U.S. Apple Association (USApple) appreciates the opportunity to provide this testimony on behalf of our nation's apple industry.

Our testimony will focus on the following areas: the Market Access Program (MAP); funding for the Specialty Crop Competitiveness Act, Cooperative State Research, Extension and Education Service (CSREES) and Agricultural Research Service (ARS) funding, nutrition education and expansion of the fruit and vegetable snack program.

USApple is the national trade association representing all segments of the apple industry. Members include 36 State and regional apple associations representing the 7,500 apple growers throughout the country as well as more than 300 individual firms involved in the apple business. Our mission is to provide the means for all segments of the U.S. apple industry to join in appropriate collective efforts to profitably produce and market apples and apple products.

Market Access Program (MAP)

USApple encourages Congress to appropriate \$200 million in MAP funds, the level authorized in the farm bill for fiscal 2007.

The apple industry receives over \$3 million annually in export development funds from the U.S. Department of Agriculture's (USDA) Market Access Program (MAP). These funds are matched by grower dollars to promote apples in more than 20 countries throughout the world. One-quarter of U.S. fresh apple production is exported, with an annual value of approximately \$370 million.

Strong MAP funding is critical to the U.S. apple industry's efforts to maintain and expand exports, and to increase grower profitability. Congress recognized the importance of MAP by authorizing increased funding in the 2002 farm bill. Over the past three years, congressional appropriations have kept pace with the farm bill's authorized level.

Food Quality Protection Act (FQPA) Implementation

USApple urges full funding for the following U.S. Department of Agriculture (USDA) administered programs to mitigate the negative impact of FQPA implementation on apple growers.

- \$16 million for the Pesticide Data Program, administered by the Agricultural Marketing Service (AMS);
- \$8.0 million for the National Agricultural Statistics Service (NASS) pesticide-usage surveys;
- \$2.0 million for the Office of Pest Management Policy administered by the Agricultural Research Service (ARS);
- \$3.7 million for minor-use registration of crop protection tools (IR-4) administered by ARS;
- \$7.2 million for area-wide IPM research administered by ARS;
- \$13.5 million for the Integrated Pest Management Research Grant Program administered by the Cooperative State Research, Extension and Education Service (CSREES);
- \$10.8 million for minor-use registration of crop protection tools (IR-4) administered by CSREES; and

—\$12.5 million for the Pest Management Alternatives Program, Regional Pest Management Centers, Crops at Risk and Risk Avoidance and Mitigation Program also administered by CSREES.

National Tree Fruit Technology Roadmap

USApple urges the Committee to support the apple industry's efforts to improve its competitiveness by providing increased Federal funding for the development and application of new technologies as outlined below.

Codling Moth and Other Lepidoptera Insect Research:

—\$800,000 Agricultural Research Service—Yakima, Washington

—\$800,000 Agricultural Research Service—Kearneysville, West Virginia

Colonial immigrants introduced the codling moth into the United States from Europe, and its presence in apple orchards has plagued apple growers for the past 200 years. If uncontrolled, codling moth larvae damage apples by burrowing into fruits. This pest causes significant production losses and ruins demand. Codling moth is presently controlled by pesticide applications or techniques that interfere with reproduction. However, these options are insufficient to fully meet industry standards for codling moth control. Shortcomings in current controls have even led to the closure of the apple industry's third largest export market. Other lepidoptera insects such as oriental fruit moth and leaf rollers are also significant pests of concern that decrease grower profitability.

The apple industry needs better decision-making techniques, improved understanding of secondary pests and the biology of pest predators, improved mating disruption techniques, rapid and efficient pest detection and instrumentation methods. Geographic differences in codling moth control capabilities requires a regional approach to research funding.

Rootstock Breeding and Soil Replant Disease Research:

—\$400,000 Agricultural Research Service—Geneva, New York

—\$400,000 Agricultural Research Service—Wenatchee, Washington

Rootstocks are important to apple growers because of their prominence in determining tree size, tree architecture and disease vulnerability. There is a growing interest and demand for hearty rootstocks that lend disease resistance and improved tree structures that are more efficient and profitable to manage.

Soil replant disease is a poorly understood phenomenon that reduces tree vigor and stunts tree growth in new orchards, which are planted on the site of a previously existing orchard. A combination of organisms such as bacteria, fungi, nematodes and viruses are suspected to play a role in attacking the roots of new apple trees, limiting their growth potential. This problem has surfaced as a high priority problem because of the scarcity of new orchard sites, the need to replant existing orchards, the high per acre cost of planting new orchards and shortage of good options to control replant disease. Soil replant disease is a problem for all tree fruits including apples, pears, peaches and cherries. Genetics and genomics approaches are expected to yield significant progress in addressing rootstock related research.

Research is needed to better understand site-specific drivers causing the disease and how the disease causes damage. Research is necessary to develop sustainable controls.

Fruit Quality Research:

—\$750,000 Agricultural Research Service—Albany, California

—\$750,000 Agricultural Research Service—Wenatchee, Washington

The future of the U.S. apple industry will depend on the ability of apple growers to consistently grow and market apples with superior quality. Improved fruit quality will not only ensure greater international competitiveness, but it will increase consumer demand for apples.

Research is needed on the physical, chemical and genetic composition of apples so apple growers can produce apples with superior consumer traits, such as texture, aroma, and nutrition and apples with superior production traits such as uniform ripening and better storage characteristics and systems to deliver better fruit quality to consumers through improved defect and quality sorting.

Automation, Sensors, and Precision Agriculture Research:

—\$4,000,000 Agricultural Research Service—Kearneysville, West Virginia

—\$2,000,000 Agricultural Research Service—East Lansing, Michigan

—\$2,000,000 Agricultural Research Service—Prosser, Washington

Improving labor productivity is a critically important goal for the apple industry as it strives to remain competitive with low-wage international competitors. Tree fruit industries must identify and incorporate new technologies that will minimize low skill tasks, enhance worker productivity and safety, reduce production and handling costs, decrease seasonality of labor, and maximize fruit quality delivered to consumers.

Additional research is needed for fruit postharvest technology research in a packing line environment to better evaluate internal fruit quality characteristics, such as internal defects, sugar content and fruit firmness. Improved sensor technology used on packing lines will be beneficial in detecting internal defects, lessen that amount of labor needed to detect and sort fruit and ensure that all packed fruit meets consumer demand for high quality fruit.

Successful technological innovations must be coupled with novel plant genetics, integrated orchard designs, biorational pest and predator management systems, and prescriptive plant bioregulators. A systems approach will also require the simultaneous development and deployment of remote and ground sensing capabilities for real-time assessment of micro-environmental variables; tree vigor and orchard canopies; pest, pathogen, and predator pressure; water stress, and fruit quality. This research would also be applicable to a host of tree fruits including cherries, peaches, almonds and apples and pears.

The need for investment in these new technologies has never been greater, but current Federal research to address this need is insufficient. Therefore, the tree fruit industry is requesting an increase in research funding to meet this great need.

Specialty Crops Competitiveness Act

USApple urges Congress to fund the block grants authorized under the Specialty Crop Competitiveness Act at the full \$44.5 million authorized under the Act.

The Specialty Crop Competitiveness Act (SCCA) was introduced in the 108th Congress by Reps. Cal Dooley (D-CA) and Doug Ose (R-CA) and in the Senate by Senators Craig (R-ID) and Stabenow (D-MI). The bill was designed to strengthen demand, reduce production costs, and enhance production and marketing efficiencies.

The majority of the funds authorized funds would go toward block grants, with each State department of agriculture being guaranteed a minimum of \$100,000. In fiscal year 2006 Congress appropriated \$7 million for the block grants. USDA's Agriculture Marketing Service is now in the process of drafting regulations to implement the program. There is a strong need to build on the \$7 million authorized for fiscal year 2006 and continue this important program.

USApple urges Congress to increase funding for the Technical Assistance for Specialty Crops (TASC) program to \$4 million as authorized under the Specialty Crop Competitiveness Act.

This program has been critical over the last 4 years in helping the apple industry address specific sanitary and phytosanitary (SPS) non-tariff trade barriers.

Fresh Fruit and Vegetable Snack Program

USApple urges Congress to include \$36 million in the USDA budget to expand the fruit and vegetable snack program to 25 schools in each of the 36 remaining States.

The 2002 farm bill established the Fruit and Vegetable Pilot Program to promote consumption of fruits and vegetables among school children by providing free produce to schools in 25 schools in each of four States (Iowa, Indiana, Michigan, Ohio and one Indian Tribal Organization in New Mexico). The Child Nutrition and WIC Reauthorization Act of 2004 made the pilot permanent and expanded it to 25 schools in Mississippi, three additional States (North Carolina, Pennsylvania and Washington were chosen by USDA) and two additional Indian Reservations. In fiscal year 2006, Congress expanded the program to an additional 6 States (Utah, Wisconsin, Texas, Idaho, New Mexico, and Connecticut). If Congress is unable to expand the program to the entire country, USApple urges that the program be expanded to include New York.

Reports from the original pilot showed that students were increasing their consumption of fruits and vegetables, choosing more fruits and vegetables for lunch, and asking their parents for fruits and vegetables at home. The fruit and vegetable snack program works to educate children about the healthy eating habits that will last a lifetime. The fruit and vegetable snack program should be expanded to 25 schools in every State.

REINSTATEMENT OF RECESSIONS

Temperate Fruit Fly Research Position—Yakima, Wash.

USApple requests continued funding of \$300,000 to conduct critical research at the USDA ARS laboratory in Yakima, Wash. on temperate fruit flies, a major pest of apples.

The Yakima, Wash., USDA ARS facility is conducting research critical to the crop protection needs of the apple industry. FQPA implementation has reduced the number of pesticides currently available to growers for the control of pests, such as cherry fruit fly and apple maggot. Left unchecked, these temperate fruit flies can be dev-

astating. Thus, research is needed to develop alternative crop protection methods as growers struggle to cope with the loss of existing tools. While Congress appropriated \$300,000 last fiscal year for this critical research, the administration's proposed budget for fiscal 2007 rescinds this funding.

Post Harvest Quality Research Position—East Lansing, Mich.

USApple urges Congress to maintain funding of \$309,600 in the USDA ARS fiscal year 2007 budget for the postharvest quality research position in East Lansing, Mich.

The East Lansing, Mich., USDA ARS facility is conducting research critical to the future survival of the apple industry. Using a series of new sensing technologies, researchers at this facility are developing techniques that would allow apple packers to measure the sugar content and firmness of each apple before it is offered to consumers. Research indicates consumer purchases will increase when products consistently meet their expectations, suggesting consumers will eat more apples once this technology is fully developed and employed by our industry. While Congress appropriated \$309,600 last fiscal year for this critical research, the administration's proposed budget for fiscal 2007 rescinds this funding.

Genomics, Disease Resistance and Insect Behavior—Kearneysville, W.V.

USApple urges Congress to maintain funding of \$588,900 in the USDA ARS 2007 budget for genomics, disease resistance and insect behavior research in Kearneysville, W.V.

This research provides critical information that assists with the development of new apple varieties, identification of disease pathways and strategies to control devastating insect pests. This research is important in developing solutions to problems that reduce fruit quality and increase production costs. Apple growers depend on this research for economic sustainability and increased international competitiveness.

Genetics of Fruit Quality Research—Wenatchee, Wash.

The Wenatchee, Wash., USDA Agricultural Research (ARS) lab is building a genetics and genomics research program that will develop a greater understanding of fruit quality attributes that are important to consumers, such as flavor, texture, storability and nutrition. This research will also provide a clearer understanding of where important genes are located within the apple genome and the role those genes play in the expression of desirable fruit quality attributes. This understanding will provide new tools that can be understood as a multiplier effect to propel existing research programs that will be able to utilize the genetics and genomics tools related to fruit quality and physiological issues.

USApple urges Congress to maintain baseline funding of \$450,000 in the USDA Agricultural Research Service's fiscal year 2007 budget for the genetics of fruit quality research position in Wenatchee, Wash. Laboratory.

PREPARED STATEMENT OF THE USA RICE FEDERATION

Dear Mr. Chairmen: This is to convey the rice industry's request for fiscal year 2007 funding for selected programs under the jurisdiction of your respective subcommittees. The USA Rice Federation appreciates your assistance in making this letter a part of the hearing record.

The USA Rice Federation is the national advocate for all segments of the rice industry, conducting activities to influence government programs, developing and initiating programs to increase worldwide demand for U.S. rice, and providing other services to increase profitability for all industry segments. USA Rice members are active in all major rice-producing States: Arkansas, California, Florida, Louisiana, Mississippi, Missouri, and Texas. The USA Rice Producers' Group, the USA Rice Council, the USA Rice Millers' Association, and the USA Rice Merchants' Association are members of the USA Rice Federation.

USA Rice understands the budget constraints the committee faces when developing the fiscal year 2007 appropriations bill. We appreciate your past support for initiatives that are critical to the rice industry and look forward to working with you to meet the continued needs of research, food aid and market development in the future.

A healthy U.S. rice industry is also dependent on the program benefits offered by the Farm Security and Rural Investment Act of 2002. Therefore, we oppose any attempts to modify the support levels provided by this vital legislation through more restrictive payment limitations or other means and encourage the committee to resist such efforts during the appropriations process.

A list of the programs the USA Rice Federation supports for appropriations in fiscal year 2007 are as follows:

Funding Priorities

Research and APHIS

The Dale Bumpers National Rice Research Center should receive continued funding at the fiscal year 2006 approved level. This center conducts research to help keep the U.S. rice industry competitive in the global marketplace by assuring high yields, superior grain quality, pest resistance, and stress tolerance. The fiscal year 2007 budget proposal from the U.S. Department of Agriculture proposes to rescind \$270,000 in funding for this key research center, which would severely hamper the vital research activities being conducted at this national center. We urge you to provide full funding to the Dale Bumpers National Rice Research Center.

In addition, we have attached information outlining the top priority research request from the USA Rice Federation; funding for aromatic rice variety research at the Dale Bumpers Center. The request is for \$250,000 for fiscal year 2007 for research to develop domestic, high-yielding, high-quality aromatic rice varieties for the U.S. rice industry. Further details and specifics of this request are attached.

Furthermore, we urge the subcommittee to continue to provide full funding for the USDA-ARS Rice Research Unit in Beaumont, Texas. The fiscal year 2007 budget proposal calls for cuts of \$1.4 million, which would likely result in the closure of this important rice research facility. We ask for your consideration in maintaining funds to keep this center in operation for the benefit of the U.S. rice industry.

The Western Regional Research Center, located in California, should receive continued full funding for operating funds. This center provides important research activities in support of the California rice industry, particularly post-harvest research. This facility has undergone recent modernization and upgrades and it is important to continue to provide the funds necessary to allow the center to continue full operations.

For APHIS-Wildlife Services, we encourage the committee to fund the Louisiana blackbird control project at \$333,000. This program annually saves rice farmers in Southwest Louisiana over \$4,000 per farm, or \$2.9 million total. No increases have been provided to the program since 1994 and inflation is reducing the overall impact. An increase from the \$150,000 baseline is justified.

Market Access

Exports are critical to the U.S. rice industry. Historically, 40–50 percent of annual U.S. rice production has been shipped overseas. Thus, building healthy export demand for U.S. rice is a high priority.

The Foreign Market Development Program (FMD) allows USA Rice to focus on importer, foodservice, and other non-retail promotion activities around the world. For fiscal year 2007, FMD should be fully funded at \$34.5 million, consistent with the President's Budget request.

The Market Access Program (MAP) allows USA Rice to concentrate on consumer promotion and other activities for market expansion around the world. For fiscal year 2007, MAP should be funded at \$200 million as authorized by the Farm Security and Rural Investment Act of 2002, which restores MAP funding to its authorized level. This is \$100 million above the President's budget request.

In addition, the Foreign Agricultural Service should be funded to the fullest degree possible to ensure adequate support for trade policy initiatives and oversight of export programs. These programs are critical for the economic health of the U.S. rice industry.

Food Aid

We encourage the committee to fund Public Law 480 Title I at a minimum level of \$100 million, an increase from fiscal year 2006 levels. This program is our top food-aid priority and we support continued funding in order to meet international demand. Food-aid sales historically account for a significant portion of U.S. rice exports.

For Public Law 480 Title II we support funding for fiscal year 2007 at \$1.335 billion, equal to the fiscal year 2006 level. We encourage the committee to fund Title II at a level to ensure consistent tonnage amounts for the rice industry. We oppose any shifting of funds, as all Title II funds have traditionally been contained within USDA's budget. We believe all food-aid funds should continue to be used for food-aid purchases of rice and other commodities from only U.S. origin.

USA Rice supports continued funding at fiscal year 2006 levels for Food for Progress. Funding for this program is important to improve food security for food deficit nations.

The Global Food for Education Initiative is a proven success and it is important to provide steady, reliable funding for multi-year programming. USA Rice supports the \$103 million request in the President's fiscal year 2007 budget for this education initiative because it efficiently delivers food to its targeted group, children, while also encouraging education, a primary stepping-stone for populations to improve economic conditions.

Other

Farm Service Agency.—We encourage the Committee to provide adequate funding so the agency can deliver essential programs and services. The Agency has been hard hit by staff reductions and our members fear a reduction in service if sufficient funds are not allocated.

Please feel free to contact us if you would like further information about the programs we have listed. Additional background information is available for all of the programs we have referenced, however, we understand the volume of requests the committee receives and have restricted our comments accordingly.

Thank you for your consideration of our recommendations.

Attachment:

FISCAL YEAR 2007 FUNDING REQUEST FORM

Agency.—U.S. Department of Agriculture

Account.—USDA/ARS: The Dale Bumpers National Rice Research Center, Stuttgart, AR

Project Name.—Research to develop domestic, high yield, high quality aromatic rice varieties at the USDA/ARS Dale Bumpers National Rice Research Center

Priority.—High.

New Project.—Yes.

Project Description.—Aromatic rice imports have grown dramatically in the United States in the past 15 years and now total about 450,000 MT per year or 15 percent of total consumption. The United States does not have an aromatic rice variety that has the yield, milling quality, and flavor to compete with the imported products. The research will enable the U.S. rice industry to compete effectively in a timely manner in the U.S. market with imported aromatic rice.

The Dale Bumpers National Rice Research Center conducts research in rice genetics, quality, and pests' resistance to help keep the U.S. rice industry competitive in the global marketplace. The Center directly serves the needs of the U.S. industry in Arkansas, California, Mississippi, Louisiana, Missouri, and Texas. One of its major emphases is the genetic improvement of rice through the use of cutting-edge genomic tools and a multidisciplinary research approach.

Aromatic rice has a flavor and aroma similar to roasted nuts or popcorn. This is a natural compound that is found in several plants like corn and rice but is present in much higher concentrations as a result of breeding and development of aromatic rice varieties.

What is the anticipated benefit and/or impact of the project?

Developing high-yielding domestic aromatic rice varieties with the grain quality traits needed is essential for the U.S. rice industry to compete in this market and meet domestic consumer demand. In addition, developing a new understanding of the various chemical compounds that result in aromatic flavors and smells, along with developing genetic markers that can be used by breeders to improve grain chemistry and grain appearance traits, will help the U.S. rice industry to have a competitive edge in this value-added market.

Previous Funding: Fiscal Year 2002–06 And Amount.—Zero.

Fiscal Year 2007 Request.—\$250,000; one full-time staff position for 1 year.

Fiscal Year 2007 Share.—Fiscal year 2007 funding is for 1 year of research, with development of a multi-year project pending the findings of the 2007 research.

Local Share.—Availability of matching funds is being explored at this time.

Request Description

ARS Account: Dale Bumpers National Rice Research Center, Stuttgart, AR

Dale Bumpers National Rice Research Center, Stuttgart, AR

Domestic Aromatic Rice Varieties Research

The Committee provides \$250,000 toward development of domestic aromatic rice varieties to enable the U.S. rice industry to compete effectively in a timely manner in the U.S. market.

PREPARED STATEMENT OF THE UNIVERSITY OF SOUTHERN MISSISSIPPI AND THE
MISSISSIPPI POLYMER INSTITUTE

Mr. Chairman, distinguished Members of the Subcommittee, I thank you for this opportunity to provide testimony describing ongoing research and commercializing efforts of The University of Southern Mississippi (USM) and the Mississippi Polymer Institute. I am very grateful to the Subcommittee for its leadership and the continued support of the Institute and its work. This testimony will include a summary of the Institute's research progress since my testimony of approximately 1 year ago.

Research efforts over the last year have focused on developing agricultural-based, environmentally responsible derivatives for use in coatings and composites to replace petroleum derivatives. Novel monomers for emulsion polymerization have eliminated the previously required complicated synthesis procedures while allowing higher levels of vegetable oil macromonomer (VOMM) incorporation. The resulting latex polymers facilitate the formulation of architectural coatings with gloss levels rivaling solvent-based coatings and zero volatile organic compound (VOC) content. Performance and storage stability optimization continues across a wide range of novel VOMMs. We are excited about the continued progress as we believe the agriculturally-derived monomers have the potential to improve performance while reducing environmental hazards.

Last year, we reported the successful production of lab-scale soy-based adhesive, formaldehyde-free particleboards that exceeded all commercial specifications. We have confirmed that the adhesive can be scaled up to 30 L batches that produce superior boards compared to the conventional formaldehyde-based boards. Moreover, the soy-based particleboards degrade faster than commercial particleboards as evidenced in soil burial tests. To the best of our knowledge, this is the only soy protein-based adhesive that can be formulated into particleboards without the use of formaldehyde-releasing resins that meets and exceeds commercial particleboard performance. Pilot plant testing confirmed laboratory performance. It defined the limits of conventional production and suggested areas requiring further research to prepare it for commercial manufacturing.

Through our continued research, the U.S. farmer is better positioned to grow and supply the sustainable raw materials required to produce environmentally responsible products and reduce our dependency on imported petroleum products. Coupled with the reduction in air pollution, a carbon neutral technology, and the absence of formaldehyde, our research is a valuable strategic component to America's long-term success and aid in maintaining a higher standard of living. To date, our technology has resulted in a total of 25 patents and patent applications, both United States and foreign. Additional patent applications will be submitted during the upcoming months. With adequate funding, facilities, and commitment, ag-based research will continue to the betterment of our society. We are most appreciative of your support and will continue to push for full commercialization of technological advances utilizing agricultural intermediates while training scientists for careers in the next generation of agriculturally-oriented polymer science.

The design and synthesis of novel vegetable oil macromonomers (VOMMs) using soy oil, linseed oil, and tung oil are being investigated. Continued research has increased the utility for new monomers at higher levels of incorporation. Tailored synthesis methods with the new monomers have increased the VOMM content in latexes to 80 percent of the monomers by weight, a 30 percent increase over last year (based on solids). The monomers that permit the polymer chain to form a smooth film also provide a mechanism for crosslinking through auto-oxidation. Successful incorporation of a variety of VOMM levels allows our research to advance to the optimization of unsaturation, comonomer ratios, and coating performance. Long-term storage stability and coatings performance continue to be investigated.

Surfmers or VOMMs that act as the stabilizing surfactant and a participating monomer in emulsions continue to be investigated. Neutralized soybean acrylated monomer (nSAM) functions well as a surfmer and performs similar to commercial surfactants with good polymerizability. Last year, we synthesized stable styrene emulsion copolymers containing 44 weight percent VOMM-based surfmers. This year, we have successfully synthesized 100 percent VOMM-based latexes that yielded high gloss films without added plasticizers or solvents, forming films at 0°C.

Solvent-free nail polishes and waterborne industrial coatings based on VOMMs were studied in comparison with commercial products. VOMM-based nail polishes provided high gloss levels and improved adhesion on plastic (ABS) and human nails. Research will continue to improve the water resistance. Industrial coatings formulated with VOMM-based latexes performed similar or superior to the control coatings when crosslinked with melamine or aziridine crosslinkers, respectively. VOMM-

based latexes formulated into paper coatings have exhibited performance properties similar to those of styrene-acrylic commercial controls. VOMM coating properties continue to be evaluated and optimized using various comonomer compositions.

Particleboard composites based solely upon soy protein adhesives were scaled from the 1–4 L range to 30 L and proved that board performance and storage stability are achievable. Additionally, the 30 L batch of adhesive produced quality composites after long-term storage. Our research produced particleboards that have met or exceeded each of the industry performance requirements as defined by ANSI standards for M1, M2, M3, and M–S grade boards. The two primary barriers to market entry/commercialization are solids content/viscosity and cost. This year, the practical adhesive solids content was increased from 20 weight percent to 29 weight percent. Commercial formaldehyde-based resins are supplied at 65 percent or greater in solids content. The low solids content of our adhesive necessitates removal of large quantities of water during the commercial manufacturing process which is influenced by various factors such as temperature, time, and platen type and size. Current research efforts are focused on improving the solids content/viscosity balance through understanding the protein interactions in water that generate a viscous solution. Soy protein isolate (SPI) is a high purity protein (90 percent) and therefore is more expensive than other forms of soy protein such as defatted soy flour (DSF) at 53 percent protein content. Particleboards manufactured with DSF as the sole replacement for SPI exceeded M3 and M1 specifications, but did not meet M2 and M3 performance requirements. Since SPI-based particleboards exceed the commercial performance requirements of formaldehyde-based particleboards in that it delivers superior moisture resistance and improved structural integrity even after 24 hours of water immersion, we believe the environmentally responsible and sustainable goals warrant further research. In addition to the performance attributes, SPI-based particleboards degrade more rapidly than commercial particleboards during soil burial tests.

The Mississippi Polymer Institute is charged with promoting and supporting Mississippi's polymer industry by providing workforce development, technical service, product development, and assistance with economic development activities. In the area of workforce development, the Institute provides industry training in injection molding, extrusion, blow molding, and lean manufacturing. In 2004–2005, MPI trained 192 employees and in 2005–2006 MPI provided training for an additional 152 employees. The Institute has implemented polymer technology programs in high schools throughout the State of Mississippi. Currently, MPI supports four high school polymer technology programs in Petal, Moss Point, Columbia, and Corinth. There are 74 students enrolled in these programs. Implementing similar programs throughout the State will build a skilled workforce in polymer science for Mississippi.

The faculty, the University, and the State of Mississippi are strongly supportive of the Mississippi Polymer Institute and its close ties with industry. Most faculty maintain at least one industrial contract as an important part of extramural research efforts. Polymers which include fibers, plastics, composites, coatings, adhesives, inks, and elastomers play a key role in the materials industry. They are ubiquitous in industrialized societies and across all industries including textiles, aerospace, transportation, energy, packaging, architecture and construction, medicine, sports and sporting goods, composites, and defense related materials. Critical for many of the technologies is a combination of controlled performance, weight reduction, and high strength performance. Unfortunately, our strategic position resembles the natural rubber supply situation during WWII which was controlled by potentially unreliable sources affecting our Nation's security.

Our agriculturally focused research continues to create innovative natural product derivatives across several technology platforms targeting commercialization in coatings, adhesives, composites, and polymers in general. America is presently at a critical point in history as our standard of living is tied directly to technological advancements and innovation demanding high energy usage and the need for scientists and engineers. Since petroleum reserves are being depleted at an accelerating rate and other countries are competing on price and innovation, timing is critical. Our youth are no longer choosing careers in science and engineering which will cause us to lose our competitive edge, and in turn, affect the standard of living within the next decade. Our greatest achievements can be accomplished through the development of high performance materials based upon carbon neutral sustainable raw material resources. Almost every technological development over the past decade was dependent upon polymeric materials. Since the polymer industry is the largest single consumer of petroleum chemical intermediates in the world, our reality is clear in that we must develop agriculture as the industry of the future. Fortunately, many scientists are beginning to harness agricultural feedstocks and nat-

ural products. For example, a scientific literature search using the term biomimetic (defined as copying nature's methods or designs) revealed only 125 peer reviewed publications and patents in 1990, whereas over 1,100 publications and patents in 2005, followed nature's lead for energy-related products, coatings protection, composites, adhesives, environmentally friendly antibacterial/antimicrobial agents, and improved medicines. A similar search using the word polymer provides over 70,000 publications and patents for 2005. Our research and commercialization efforts encompass many important facets including training scientists that will continue to innovate and develop technology that is critical for the maintenance of our quality of life and national stability. We, as a Nation, can improve our environment, reduce our dependence on imported petroleum, keep America's farmlands in production, and continue to be the World's technology leader. Your support is necessary to continue our research efforts to accomplish the goals set forth.

As a polymer scientist, I am intrigued by the vast opportunities offered by American agriculture. As a professor, however, I continue to be disappointed that few of our science and business students receive training in the polymer-agricultural discipline despite its enormous potential. The School of Polymers and High Performance Materials and the Mississippi Polymer Institute at USM are attempting to make a difference by showing others what can be accomplished if appropriate time, energy, and resources are devoted to the understanding of ag-based products. I became involved in the polymer field more than 40 years ago, and have watched its evolution where almost each new product offered the opportunity for many more. Although polymer science as a discipline has experienced expansion and a degree of public acceptance, alternative agricultural materials in the polymer industry continue to be an underutilized national treasure. Today, society displays less acceptance of petroleum-derived materials than ever before, and consequently, the timing is ideal for agricultural materials to make significant inroads as environmentally responsible, biodegradable, and renewable feedstocks. Agricultural materials have always been available for our use, and the scientific community often grasps the real potential for renewable materials, unfortunately, society continues to ignore their potential.

U.S. agriculture has made the transition from the fields to the kitchen tables, but America's industrial community continues to be frightfully slow in adopting ag-based industrial materials. The prior sentence was included in several of my previous testimonies and rings true again. We are making progress and must continue to aggressively pursue these opportunities and in doing so:

- Intensify U.S. efforts to commercialize alternative crops and dramatically reduce atmospheric VOC emissions and odor. The result will be much cleaner and less noxious air for all Americans.
- Reduce U.S. reliance on imported petroleum.
- Maintain a healthy and prosperous farm economy with unlimited sustainability.
- Foster new cooperative opportunities between American farmers and American industry.
- Create advanced polymer technology-based manufacturing jobs that can not be easily exported to other countries.

Mr. Chairman, your leadership and support are deeply appreciated by the entire USM community. While I can greatly appreciate the financial restraints facing your Subcommittee, I feel confident that further support of the Mississippi Polymer Institute will continue to pay dividends of increasing commercialization opportunities of agricultural materials in the American industry and training scientists required for America's continued prosperity. Advances in polymer research are crucial to food, energy, transportation, housing, medical, and defense industries. Our work has clearly established the value of ag-products as industrial raw materials, and we must move it from the laboratories to the industrial manufacturing sector. Only then can the United States enjoy the cleaner and safer environment that these technologies offer, as well as new jobs, and expanded opportunities for the U.S. farmer and scientists. We are most grateful for the support you have provided in the past. The funding you have provided has supported fundamental research as well as pilot commercial manufacturing and testing. However, additional funds are needed to further advance these technologies.

Since our testimony last year, we have continued to research, understand, and develop, agricultural-based materials for commercialization. We are in need of additional and consistent resources to advance these infant technologies to the market place, and to continue our research and development of other exciting technologies. We therefore respectfully request \$2 million in federal funding to more fully exploit the potential of commercializing the technologies described herein. We have shown that we can be successful, yet we need additional resources in order to ultimately

utilize the potential of this technology. Next year's research and commercialization plan is aggressive, knowing that our Nation requires technology to survive and that our efforts will be recognized as instrumental in developing a "process" for the commercialization of new ag-based products. The development of this process, and to show it is successful, is extremely important to all entrepreneurs who believe in and support ag-based products. Thank you, Mr. Chairman and Members of the Subcommittee, for your support and consideration.

PREPARED STATEMENT OF THE UPPER MISSISSIPPI RIVER BASIN ASSOCIATION

The Upper Mississippi River Basin Association (UMRBA) is the organization created in 1981 by the Governors of Illinois, Iowa, Minnesota, Missouri, and Wisconsin to serve as a forum for coordinating the five States' river-related programs and policies and for collaborating with Federal agencies on regional water resource issues. As such, the UMRBA has an interest in the budget for the U.S. Department of Agriculture's conservation programs and technical assistance.

Of particular importance to the UMRBA is funding for the Conservation Reserve Program (CRP), Wetlands Reserve Program (WRP), Environmental Quality Incentives Program (EQIP), and Conservation Security Program (CSP). Taken together, these four Commodity Credit Corporation-funded programs provide an invaluable means for the USDA to work with landowners, local conservation districts, and the states to maintain agricultural productivity while protecting the Nation's soil and water resources. Moreover, they do this in a voluntary, non-regulatory fashion. CRP, WRP, EQIP, and CSP will be key non-regulatory elements in the States' efforts to address agricultural sources of water quality impairment through the Total Maximum Daily Load program. Successful application of conservation programs to this region's water quality problems will also help address the growing national concern with hypoxia in the Gulf of Mexico, which has been linked to nutrient loads from agriculture and other sources. As stewards of some of the Nation's most productive agricultural lands and important water resources, the five States of the Upper Mississippi River Basin believe these programs are vital.

Conservation Reserve Program

The UMRBA supports President Bush's fiscal year 2007 budget request of \$2.09 billion for the Conservation Reserve Program, a 5 percent increase over fiscal year 2006. This increase is testament to the strong landowner interest and high environmental benefits resulting from enrollment of fragile cropland acres in CRP. Through CRP, farmers and ranchers can voluntarily establish long term conservation practices, such as filter strips and riparian buffers, on highly erodible and environmentally sensitive cropland.

In the UMRBA States (Illinois, Iowa, Minnesota, Missouri, and Wisconsin), total CRP enrollment is currently 7.0 million acres, or approximately 19 percent of the national CRP acreage. Yet the five States' CRP enrollment represents 41 percent of the total number of CRP contracts, 40 percent of the total number of farms enrolled nationwide in the CRP, and 32 percent of the total annual CRP rental payments.

In 2007, nearly 39,000 CRP contracts in the five UMRBA States will expire, representing 29 percent of the CRP acres currently enrolled in these States. To determine which expiring contracts will be eligible for re-enrollment, USDA used an Environmental Benefits Index. As a result, 99.7 percent of the contracts expiring in 2007 in the five States will be offered re-enrollment.

All five UMRBA States also have active Conservation Reserve Enhancement Programs tailored to meet their priority conservation needs. Current CREP enrollment in the five States is nearly 243,000 acres, or 31 percent of the national total. These rates of participation clearly demonstrate the importance of the CRP and CREP in the Nation's agricultural heartland and reflect the compatibility of these programs with agricultural productivity.

Wetlands Reserve Program

The President's fiscal year 2007 budget proposes \$403 million for the Wetlands Reserve Program, an increase of 60 percent over fiscal year 2006 funding. UMRBA applauds this substantial increase and urges Congress to provide sufficient funding to meet WRP's 2007 enrollment goal of 250,000 acres, which is 100,000 acres more than the 2006 estimate.

Since the WRP was established in 1996, its easements have proven to be important tools for restoring and protecting wetlands in agricultural areas. This is clearly evident from the overwhelming landowner response and the resulting improvements to water quality and habitat. Through fiscal year 2004, WRP enrollment in Illinois,

Iowa, Minnesota, Missouri, and Wisconsin totaled more than 309,000 acres, or 19 percent of the national total. In fiscal year 2005, landowners in the five States enrolled an additional 28,000 acres in the WRP. However, there were 1,217 eligible, but unfunded, applications to enroll another 134,000 acres from the five States in fiscal year 2005. This represents 38 percent of the total national backlog of applications for that year.

Environmental Quality Incentives Program

In contrast to conservation programs that protect land and water resources by curtailing production on sensitive lands, the Environmental Quality Incentives Program supports conservation on working lands. Promoting agricultural production and environmental quality as compatible goals is particularly important in the Midwest agricultural heartland.

The 2002 Farm Bill provides \$1.3 billion of budget authority for the EQIP in fiscal year 2007. However, the President is proposing to fund EQIP at only \$1.0 billion. The UMRBA urges Congress to fund EQIP at its full authorized level. Like many other conservation programs, EQIP funding has not kept pace with demand. Even at full funding, there will likely be significant numbers of unfunded EQIP applications. In fiscal year 2006, the EQIP allocation to the States of Illinois, Iowa, Minnesota, Missouri, and Wisconsin totals \$118 million, only slightly more than the \$114 million provided in fiscal year 2004, a year when there was an additional \$180 million in unmet requests for EQIP assistance.

Conservation Security Program

The President's fiscal year 2007 budget request of \$342 million for the Conservation Security Program reflects a 32 percent increase over fiscal year 2006 for this popular voluntary program, which provides financial and technical assistance to agricultural producers who implement conservation measures on working lands.

In fiscal year 2005, CSP contracts were offered to farmers and ranchers in 220 watersheds across the country. Twenty-two of those watersheds were in the five States of the Upper Mississippi River Basin. In those 22 watersheds, NRCS approved payments totaling \$37.6 million, which was 26 percent of the total CSP contract payments that year.

In fiscal year 2006, CSP will be offered in 60 different watersheds nationwide, including one or two in each UMRBA State. It is too early to judge the demand for CSP in fiscal year 2006. The fiscal year 2006 sign-up opened February 13, 2006 and is scheduled to close March 31, 2006. It remains to be seen what the ultimate level of landowner interest will be in the CSP, as eligible watersheds change each year. But the UMRBA is encouraged that CSP is continuing to expand and funding levels are increasing.

Conservation Technical Assistance

Through the Conservation Technical Assistance program, NRCS provides the technical capability that helps people plan and apply conservation on the land. NRCS works through and in partnership with conservation districts to assist individuals and groups in assessing conservation needs and planning, designing, and installing conservation practices. In addition, the CTA program assists in preparing landowners to participate in USDA conservation financial assistance and easement programs, provides emergency disaster technical assistance, and enables NRCS to coordinate with other programs such as U.S. EPA's nonpoint source management program and U.S. Fish and Wildlife Service's Partners for Wildlife. Approximately \$92.8 million in CTA funding will be allocated to the five UMRBA States (Illinois, Iowa, Minnesota, Missouri, and Wisconsin) in fiscal year 2006. Yet that is an 8.6 percent decrease from funding levels just 2 years ago.

Given that CTA is the foundation for much of the Nation's private lands conservation assistance, it is disappointing that the President's fiscal year 2007 budget proposes a \$62 million, or 9 percent, decrease in the CTA account. The UMRBA urges that, at a minimum, funding for CTA be maintained at the fiscal year 2006 level.

Watershed Programs

The UMRBA is concerned that the President is proposing deep cuts to NRCS's watershed programs, including total elimination of the Watershed and Flood Prevention Operations program, which funds Public Law 566 and Public Law 534 projects. Funding for Watershed Operations has declined substantially over the past 20 years, from an historical high of \$199 million in fiscal year 1994 to only \$74 million in fiscal year 2006. And yet this program provides significant local, regional, and national benefits, by addressing watershed protection, flood prevention, erosion and sediment control, water supply, water quality, water conservation, agricultural drought problems, rural development, municipal and industrial water needs, up-

stream flood damages, fish and wildlife habitat enhancement, and wetland creation and restoration. In May 2005 there were \$1.89 billion of unfunded Federal commitments to Public Law 566 and Public Law 534 projects nationwide, with nearly \$243 million of that in the States of Illinois, Iowa, Minnesota, and Missouri. Despite the fact that Public Law 566 and Public Law 534 projects in the five States were allocated nearly 27 percent of the total national funding in fiscal year 2005, that amount (\$19.1 million) was far less than the \$243 million backlog. In fiscal year 2006, although there is only \$74 million available for watershed protection and flood prevention operations nationwide, there are funding requests totaling over \$174 million, \$44 million of which are in the five UMRBA States. Rather than eliminating this important program, UMRBA urges that it be funded at least equal to the fiscal year 2006 level of \$74 million.

In addition to continuing to invest in watershed and flood prevention projects, the rehabilitation of aging flood control dams must also be addressed. Of the 11,000 Public Law 534 and Public Law 566 dams nationwide, more than 3,000 will reach the end of their design life by 2013. Recognizing this fact, Congress authorized the Watershed Rehabilitation Program in 2000 and authorized significant new funding for the program in the 2002 Farm Bill. In particular, \$60 million is authorized for the Watershed Rehabilitation Program in fiscal year 2007. Yet the President's fiscal year 2007 budget request is only \$15 million, a 52 percent decrease over the fiscal year 2006 funding level. In fiscal year 2005, when \$27.3 million was appropriated for the Watershed Rehabilitation Program, only 60 percent of the \$46 million in project requests was met for the year. Rehabilitation of aging dams, which could become a threat to public health and safety, is extremely important and UMRBA thus urges Congress to fund the Watershed Rehabilitation Program at least equal to its fiscal year 2006 level.

PREPARED STATEMENT OF WEST VIRGINIA UNIVERSITY

Chairman Bennett and Members of the Subcommittee: Thank you for the opportunity to offer testimony to the Subcommittee on Agriculture, Rural Development, and Related Agencies. We request funding in the amount of \$1,000,000 in the USDA budget for fiscal year 2007 to initiate a program called SCIPS, the Small Community Infrastructure Protection and Sustainability program. Discussion regarding our request is offered below.

Introduction

My name is Richard Bajura, and I serve as Director of the National Research Center for Coal and Energy at West Virginia University in Morgantown, West Virginia. We have a long history of working with small and rural communities on projects in drinking water, wastewater, solid waste management, security for small community water systems, and emergency preparedness. We offer a resource of information and specialized technical assistance and training services to small communities and to those professionals that serve small communities and rural areas.

Currently in the United States, there are no comprehensive regional or national centers dedicated to helping a small community to prepare for, respond to, and recover from natural or man-made emergencies or terrorist acts which affect a community's water infrastructure. This testimony outlines a model concept called Small Community Infrastructure Protection and Sustainability (SCIPS) which addresses this national need. Benefits to be gained by small communities include improved emergency preparedness and reduced costs for restoring infrastructure and services.

Need

In the last 5 years, the Federal Emergency Management Administration (FEMA) has responded to more than 300 declared disasters including natural events such as earthquakes, hurricanes, tornadoes, and floods and man-made perils such as major fires, dispersal of hazardous materials, and acts of terrorism. Floods are the most common and widespread of all natural disasters except fires. The devastation caused by hurricanes such as Katrina or Rita is widely publicized and impinges on our consciousness. During major disasters, much of the Nation's attention is focused on large population centers, but nearly one-third of all Americans live in small, rural communities. Early reports on Hurricane Katrina's aftermath indicated that nearly 1,000 drinking water and sewer systems were damaged and non-functional. Most of the impacted systems were in sparsely populated rural communities, lacking in emergency communications, and typically last in line for assistance as responders bypassed them on the way to the bigger cities.

Advance preparation before an emergency is essential since federal protocols require that communities should be able to manage with their own resources for at

least 24 to 72 hours before national programs provide assistance. But many small communities lack the expertise, information, and resources to install and operate appropriate water and wastewater systems, prepare the mandated emergency response plans, respond to emergencies when they occur, and recover afterwards. Small, and even medium-sized communities, are the least able to afford security and emergency preparedness enhancements to their water infrastructure or to obtain such expertise. These communities require assistance in all phases of preparing for and responding to emergencies.

SCIPS Model

States and their respective small communities would benefit from access to a national resource dedicated to providing comprehensive water and wastewater assistance in all phases of emergency management. The SCIPS model program can assist small communities nationwide to maintain, protect, and replace water infrastructure resources damaged during emergency events. A service organization, or center, based on the SCIPS model draws upon experts in technology, public health, public administration, law, and policy to make the best environmentally and economically sound options available to small communities. SCIPS can serve as a comprehensive, one-stop resource for regulatory and public officials, assistance providers, utility operators/managers, and homeowners who want unbiased and timely information on water and wastewater infrastructure selection, maintenance, and replacement.

Community Preparation.—During non-emergency periods, the SCIPS center focuses on community preparedness. Preparedness includes development and dissemination of short- and long-term strategies addressing threats to, and fostering the sustainability of, small community water and wastewater infrastructure. SCIPS personnel will provide customized training and education, technical assistance, and R&D throughout the Nation. These services will promote and facilitate asset management practices and emergency protocols as an integral part of infrastructure protection and sustainability. The SCIPS center increases the knowledge base of community officials, policy makers, scientists, engineers, and others through a research, education, and awareness campaign.

Disaster Response.—During a disaster, the SCIPS center is a specialized resource that can be drawn upon at the request of national and local officials for timely assistance. The SCIPS center has core capabilities as an information center and technical assistance provider through its extensive knowledge of the network of public and private service providers across the Nation. SCIPS personnel are available to answer questions via hotline phone and internet facilities, serve as a communications resource among responders, and provide specialized assistance by arranging for technology experts to visit the affected communities. The SCIPS center assists communities in quickly restoring services as effectively as possible based on the extent of the disaster.

Recovery.—During the post-emergency recovery phase, the SCIPS center assists communities in assessing damage, evaluating options for infrastructure replacement, and providing technical services for the replacement, installation and/or repair of infrastructure damaged during the emergency. The SCIPS center provides communities access to local, regional, and national experts. The Center offers a comprehensive spectrum of assistance to small communities for recovery of services, which enables a return of economic productivity to the community in addition to restoring essential services and ensuring public health.

Benefits

The benefits to small and rural communities and to the Nation from establishing the SCIPS program include:

- Implementation of viable security improvements for water and wastewater infrastructure, systems “hardened” to withstand disaster and prevent damage from terrorism acts, and quicker recovery of essential systems and services after catastrophic events;
- Small communities that are better informed about preparing and implementing water and wastewater emergency procedures;
- Communications plans for small community water and wastewater treatment systems in coordination with other community organizations;
- Improved rural community public health and a protected environment; and,
- Cost savings at the Federal, State and local levels realized by implementing infrastructure sustainability measures which reduce economic losses during catastrophic events.

West Virginia University

West Virginia University is uniquely qualified to undertake implementation of the SCIPS model. As a comprehensive land grant, research extensive university, West

Virginia University has the necessary faculty expertise to address the spectrum of legal, health, policy, research, and service requirements of the SCIPS model. Its National Environmental Services Center has more than 26 years of service to the Nation's small communities in the areas of drinking water, waste water, homeland security, and educational and training programs. The Center also has working relationships with relevant Federal agencies, State offices, and technology experts through out the country who would participate in response teams addressing emergencies in their respective regions.

Recommendation

The lessons learned from the effects of Hurricane Katrina demonstrate the need for assistance to small communities in the protecting drinking water and wastewater infrastructure. We recommend establishing a national center to provide the services outlined under the SCIPS model.

The following language is suggested for the Subcommittee Report: "The Managers provide \$1 million for the Small Community Infrastructure Protection and Sustainability program." We have not received funding for this program previously.

PREPARED STATEMENT OF THE NATIONAL DRINKING WATER CLEARINGHOUSE

Chairman Bennett and Members of the Subcommittee: Thank you for the opportunity to offer testimony to the Subcommittee on Agriculture, Rural Development and Related Agencies. We request an appropriation of \$2 million for fiscal year 2007 to continue the programs of the National Drinking Water Clearinghouse [NDWC] under the Rural Community Advancement Program [RCAP] in the USDA budget.

Introduction

My name is Richard Bajura, and I represent the National Drinking Water Clearinghouse, which is located at West Virginia University in Morgantown, West Virginia. My unit is home to a specialized suite of programs that address the environmental needs of small and rural communities. Our staff members have expertise in drinking water, wastewater, solid waste management, security systems for small community infrastructure, and emergency preparedness. We offer a resource of information and specialized technical assistance and training services to small communities and to those professionals that serve small communities and rural areas. This testimony focuses on our programs in drinking water infrastructure that are funded under RCAP.

Need for Federal Programs

Clean, safe drinking water and the effective treatment of wastewater are critical to public and environmental health. For most of us, it's easy to take water for granted. However, not that long ago, most people didn't have indoor plumbing. According to U.S. Census Bureau data, half of American homes in 1940 lacked complete plumbing facilities (defined as hot and cold piped water, a bathtub or shower, and a flush toilet). By 2002, EPA found that the number of homes having complete plumbing facilities increased to 91 percent. Much of this improvement can be attributed to Federal infrastructure investment. The U.S. Department of Agriculture's Rural Utilities Service [RUS] has provided more than \$20 billion for water and wastewater projects since 1947. In spite of these improvements, however, 670,000 households (with nearly 2 million people) lack access to water, sanitation, or both. Safe, affordable water infrastructure is an investment in the economic viability and public health of rural America.

Water Infrastructure Challenges

Over 50,000 water treatment systems serve the U.S. population, with 86 percent of these systems being classified as "small" systems (serving fewer than 3,300 customers) and "very small" systems (serving fewer than 500 customers). Because smaller systems have lower revenues and fewer resources, they are more likely to have difficulty meeting an increasing number of environmental regulations. Very small systems are 50 percent more likely to incur violations than all other system sizes. When the Safe Drinking Water Act was passed in 1974, 18 contaminants were regulated. By 2004, that number had grown to 86. Another eight will be added by 2008.

While significant progress has been made, a number of challenges confront communities as they try to safeguard public health. The very nature of rural/small town America works against easy solutions to providing essential water service. The cost of providing basic water service (and other infrastructure) is often prohibitive because of geographic isolation, low population density, social and cultural diversity,

and a lack of proper information. Twenty-five percent of our Nation's drinking water utilities have insufficient revenues to fund the full cost of providing service to customers. An equal percentage of utilities have deferred maintenance due to insufficient funding. Estimates show that during 2000–2019, the operation and maintenance funding gap for our Nation's drinking water utilities could be as high as \$495 billion, and the capital funding gap could be as high as \$267 billion.

In many communities, water distribution systems and wastewater collection systems are 40 to 50 years old, with many dating back more than a century. According to the American Society of Civil Engineers (ASCE), U.S. drinking water systems are responsible for maintaining an estimated 800,000 miles of water delivery pipelines. In the 2002 report titled *Clean Water and Drinking Water Infrastructure Gap Analysis*, EPA estimated that we need to invest \$265 billion for drinking water systems infrastructure through 2022. In the 2003 update to ASCE's Report Card for America's Infrastructure, both drinking water and wastewater were given a grade of "D." The report suggests that, without new investment, the progress made over the last 30 years is threatened.

As a partial solution to addressing these challenges, the Technical Assistance and Training [TAT] grants program under the USDA Rural Community Advancement Program make it possible for small communities to maximize their investments in water infrastructure through the use of appropriate technology and sound management practices. The next sections of this testimony focus on programs of the National Drinking Water Clearinghouse which provide needed assistance to these communities.

Information and Technical Assistance Services of the NDWC

For 15 years, the National Drinking Water Clearinghouse has helped small and rural communities with their water infrastructure management and utility security issues. The NDWC's services enable small communities to provide clean water to their citizens and prevent pollution. In this way the NDWC helps small and rural communities to protect their public health, increase economic opportunity, and improve their quality of life through providing adequate, safe, and economical drinking water to their citizens.

The NDWC accomplishes its mission through a three-pronged approach. First, the NDWC provides targeted assistance and quality information for meeting regulatory compliance requirements and for optimizing community water services. Second, the NDWC provides assistance and strategic information to small communities to enable them to develop sustainable water services that facilitate economic development. Third, the National Drinking Water Clearinghouse provides information for public awareness and increased stewardship of water resources to educate community officials (who usually are part-time administrators) and the general public.

The NDWC performs a range of assistance activities for small communities. Telephone callers can obtain toll-free technical assistance from our staff of certified operators, engineers, and scientists. Our quarterly publication "On Tap," a magazine about drinking water treatment, financing, and management options helps communities and small water systems to operate, manage and maintain their facilities while keeping them financially viable. A comprehensive Web site and databases with thousands of entries provide around the clock access to contemporary information on small water systems. Training sessions customized for small and rural areas, teleconferences, and more than 400 free and low-cost educational products provide people the instruction and tools they need to address their most pressing drinking water issues.

These services are well received by small community officials and service providers and should be continued. Unless the services of the National Drinking Water Clearinghouse are available to provide assistance to these communities regarding alternative technologies, preparing grant proposals, and training the community officials and service providers, the health of these communities will be jeopardized and opportunities for economic development will be severely hampered.

We plan to use \$1.5 million of our request to continue NDWC's Information and Technical Assistance Services in fiscal year 2007. This program receives funding from proposals submitted to the Technical Assistance and Training [TAT] Grants Program in the RCAP budget line.

Special Services to Small Communities

In addition to the National Drinking Water Clearinghouse's knowledge base and technical support, the NDWC is expanding its assistance to small "underserved" communities through technical field support. "Underserved" is a term that is used to characterize those small and rural communities that, due to size and economic constraints, have great difficulty assessing their environmental problems and com-

peting for funding. Examples would be communities such as we have in West Virginia, Alaska, the sprawling Colonias bordering Mexico, Indian reservations, and small communities in California, New York, and the New England States.

The NDWC's funding under the Technical Assistance and Training Grants program currently does not provide for direct "on the ground" services to underserved communities. A portion of our funding will be used to develop a pilot program to honor requests for site-specific technical support from underserved communities. This support gives small and very small communities assistance through site assessments and feasibility studies that they might not otherwise be able to access for planning needed infrastructure improvements, their financing, and management.

Communities often ask for help in assessing their water and wastewater needs and options prior to contacting and retaining the services of a private consulting firm. Through the pilot program, the NDWC will be able to conduct site assessments and offer information and education on technology options. In addition, NDWC staff will attend and make presentations at community meetings concerning best technology and management practices. Pre-engineering assessments conducted by NDWC will enable communities to have a thorough knowledge of their water and wastewater treatment needs and options, prior to retaining engineering services. In this way they will be positioned to select technologies that they can afford, and will be able to manage and maintain.

Funding for the special services to small communities programs will enable assistance to be provided on location in communities throughout the United States. We will use \$500,000 of our appropriation for special services to small communities.

For the past several years, the Managers of this Subcommittee have inserted language in the committee report for Agriculture Appropriations budget bill that recommended increases in our annual funding to provide special services to underserved communities. However, no specific amount of funding was earmarked through this language, and, consequently, the National Drinking Water Clearinghouse has not received funding from USDA to initiate the special services program.

Request

In the Conference Report for the USDA appropriations for fiscal year 2006 [H.R. 109–255], the Conference Managers directed spending in the amount of \$18,250,000 for the Technical Assistance and Training [TAT] Grants Program in the RCAP budget line. For fiscal year 2007, we request that the TAT program receive sufficient funding to maintain the NDWC program and that of the total amount provided for fiscal year 2007, \$2 million should be specifically earmarked for the programs of the NDWC.

The following language is suggested for the USDA Subcommittee Report: "The Managers provide \$2 million to the National Drinking Water Clearinghouse for information, technical assistance and special services to small communities."

A summary of our recent awards history is provided for reference.

FUNDING AWARDED TO THE NATIONAL DRINKING WATER CLEARINGHOUSE FOR TECHNICAL ASSISTANCE AND TRAINING (TAT) PROJECTS UNDER THE RURAL COMMUNITY ADVANCEMENT PROGRAM (RCAP) OF THE USDA BUDGET

USDA funded grants	Federal fiscal year appropriated	Award amount
National Drinking Water Clearinghouse	2006	(¹)
National Drinking Water Clearinghouse	2005	\$1,200,000
National Drinking Water Clearinghouse	2004	1,157,000
National Drinking Water Clearinghouse	2003	1,336,000
Technical Assistance for Rural Wastewater Management Entities (Project II)	2003	510,000
National Drinking Water Clearinghouse	2002	1,336,000
Technical Assistance for Rural Wastewater Management Entities (Project II)	2002	500,000
.....	.....	6,039,000

¹ Amount pending.

Fiscal year 2007 Request: \$2 million (\$1.5 million for Information and Technical Assistance Services and \$0.5 million for Special Services to Small Communities).

PREPARED STATEMENT OF THE WILDLIFE SOCIETY

The Wildlife Society appreciates the opportunity to submit testimony concerning the fiscal year 2007 budgets for the Natural Resources Conservation Service (NRCS), Animal Plant Health Inspection Service (APHIS), and Cooperative State

Research, Education and Extension Services (CSREES). The Wildlife Society is the association of almost 8,000 professional wildlife biologists and managers dedicated to sound wildlife stewardship through science and education. The Wildlife Society is committed to strengthening all Federal programs that benefit wildlife and their habitats on agricultural and other private land.

Natural Resources Conservation Service

Wildlife Habitat Incentives Program (WHIP).—WHIP is a voluntary program that provides technical and financial support to farmers and ranchers to create high quality wildlife habitat. The Wildlife Society recommends funding WHIP at \$85 million in fiscal year 2007, the full amount authorized by the 2002 Farm Bill.

Wetland Reserve Program (WRP).—WRP is a valuable program designed to assist farmers and ranchers in protecting and restoring wetland habitat. The Wildlife Society appreciates the continued targeting of 200,000 acres annually for enrollment in WRP. However, we recognize that if the authorized level of 250,000 acres is not enrolled every year, then enrollment must increase in future years to reach the authorized level of 2,275,000 acres. Full WRP enrollment is needed if the Administration intends to achieve the President's goal of no-net-loss of wetlands. The Wildlife Society supports an enrollment target of 250,000 acres in fiscal year 2007.

Animal and Plant Health Inspection Service

Wildlife Services.—Wildlife Services (WS), a unit of APHIS, is responsible for controlling wildlife damage to agriculture, aquaculture, forest, range, and other natural resources, for controlling wildlife-borne diseases, and for controlling wildlife at airports. Its activities are based on the principles of wildlife management and integrated damage management, and are carried out cooperatively with State fish and wildlife agencies.

The Wildlife Society is concerned by the Administration's proposal to decrease funding in key activity areas for WS. The President's fiscal year 2007 proposed budget directs an increase of \$9,750,000 to the WS Operations line item, while requesting \$12,539,000 in decreases to offset the proposed increases, for a net decrease of \$2,789,000. In essence, \$9,750,000 is being redirected from existing activities to support airport safety and assistance (\$3,000,000), the oral rabies vaccination program (\$1,750,000), and wildlife disease monitoring and surveillance (\$5,000,000). While we are pleased that these activities have gained presidential support, these new mandates, along with the net decrease to the WS operational budget, will effect a \$12,539,000 overall reduction to key activity areas. The Wildlife Society strongly recommends that Congress restore, as an add-on, the proposed decrease of \$2,789,000 and provide increased funding of \$9,750,000 for WS to continue local program operations, as well as to support the airport safety, rabies, and wildlife disease activities without redirecting funds from other needed activities.

We understand the importance of safeguarding our Nation against highly pathogenic avian influenza and applaud the added fiscal resources to address this critical issue. The President's fiscal year 2007 budget proposal redirects \$3.2 million for avian influenza research as it relates to migratory birds. The Wildlife Society recommends that Congress provide additional money to adequately fund this and other important and associated research. Redirection of funds for this program would have serious and, in many cases, terminal effects on existing projects.

This program is also short \$2.2 million because of previously directed unfunded earmarks. These directed programs leave important programs under-funded, like the Jack Berryman Institute for Wildlife Damage Management at Utah and Mississippi State Universities; the Logan, Utah Predator Research Station; the newly-established Texas A&M University-Kingsville Research Field Station; important reproduction inhibition research; and the National Trap Standards Development and Testing Project.

Veterinary Services.—The Wildlife Society is deeply troubled by the proposed cuts in several line-item budgets of USDA-APHIS-Veterinary Services (VS). The protection of wildlife, livestock, and humans from the threat of intentional and/or accidental introduction of disease pathogens is very real and increases daily. The occurrence of Highly Pathogenic Avian Influenza H5N1 in Asia, Europe, Africa, and the Middle East, the introduction of Monkey Pox in 2003, the Exotic Newcastle Disease event in California and other States in 2003–2004, and the national spread of West Nile Virus starting in 1999 all indicate that the introduction of diseases is rapidly increasing with no signs of abating. In time of concern about national security and the need to protect the citizens of the United States from the introduction of exotic diseases, it is imperative that funding for the agencies responsible for detecting and prohibiting disease introductions be adequately funded. The reemergence of several diseases, such as bovine TB, Brucellosis, and others indicate that the efforts to con-

trol and eradicate these diseases are not complete and APHIS must continue to address the threats they pose to livestock, wildlife, and humans. Additionally, VS continues to identify some diseases, such as pseudorabies in feral pigs, as important economic drains on the economy while sister agencies in USDA-APHIS propose to cut research into feral hog control programs. The Wildlife Society strongly recommends that all branches of USDA-APHIS coordinate budgets and activities for livestock and wildlife disease surveillance, research, and control.

The Wildlife Society is very concerned about the proposed \$1.405 million reduction in the Brucellosis Program budget. This appears ill-advised given the fact that three States—Texas, Wyoming, and Idaho—currently are without their brucellosis class-free status because of recent outbreaks in domestic cattle herds. Because of its presence in wild elk and bison, brucellosis in the Greater Yellowstone Area will be especially difficult to eliminate and will require more, not less, fiscal resources to accomplish. We recommend Congress restore brucellosis funding to \$11 million in fiscal year 2007, and that USDA-APHIS-Veterinary Services continue to utilize the authorities and expertise of the Greater Yellowstone Interagency Brucellosis Committee to address domestic livestock interactions with wild elk and bison in the region.

The Wildlife Society commends APHIS-Veterinary Services for providing funding to state wildlife management agencies for Chronic Wasting Disease (CWD) surveillance and management in free-ranging deer and elk. Additionally, The Wildlife Society strongly supports APHIS' efforts to eliminate CWD from captive cervids in order to eliminate the risk of spread of the disease from these animals to free-ranging deer and elk. The surveillance and monitoring efforts conducted by all 50 States during 2004 and 2005 would not have been possible without this cooperative funding. Additionally, knowledge of the presence and prevalence of CWD has been enhanced by this program. Without continued funding, States will be unable to maintain the level of CWD surveillance necessary to track the disease. The National CWD Plan calls for additional management efforts to prevent the spread of CWD in the United States. The finding of CWD in three additional States in 2005 (New York, West Virginia, and Kansas) emphasizes the need for continued surveillance and monitoring. Without the State cooperative agreement funding from Veterinary Services, this surveillance and monitoring would not be possible. With additional States finding CWD or bordering States with CWD, the amount of funding available will be spread thinner, while the need for this activity increases. The Wildlife Society strongly recommends Congress increase CWD funding to a total of \$30 million in fiscal year 2007, with \$20 million designated for cooperative agreements with the States for surveillance and management of CWD in free-ranging cervids.

The Wildlife Society is encouraged by the additional funding proposed in fiscal year 2007 for both low pathogenic and high pathogenic avian influenza work. The potential for this disease to spread to the North American continent and severely impact wildlife, domestic poultry, and humans highlights the importance of continued surveillance and monitoring of all zoonotic diseases. The fiscal year 2006 supplemental appropriation provided funding needed to begin to address the avian influenza issue, both in the United States and elsewhere. This effort must continue to ensure that America's citizens and resources are protected. The Wildlife Society strongly supports the proposed funding for low pathogenic avian influenza at \$3.05 million and for high pathogenic avian influenza at \$51.7 million.

Cooperative State Research, Education, and Extension Service

Renewable Resources Extension Act.—RREA provides an expanded, comprehensive extension program for forest and rangeland renewable resources. The RREA funds, which are apportioned to State Extension Services, effectively leverage cooperative partnerships at an average of four to one, with a focus on private landowners. The need for RREA educational programs is greater today than ever because of continuing fragmentation of ownership, urbanization, the diversity of landowners needing assistance and increasing societal concerns about land use and the impact on natural resources including soil, water, air, wildlife and other environmental factors. The Wildlife Society recommends that the Renewable Resources Extension Act be funded at \$30 million as authorized in the 2002 Farm Bill.

McIntire-Stennis.—The proposed budget for fiscal year 2007 reflects a stable funding level for the McIntire-Stennis Cooperative Forestry program. An alternative approach to the research formula base programs would redirect 45 percent of both the Hatch Act and the McIntire-Stennis Cooperative Forestry program funds to nationally competitively awarded multi-state/multi-institutional projects. This represents a significant departure from prior years. These funds are essential to the future of resource management on non-industrial private forestlands, as forest products are produced while conserving natural resources, including fish and wildlife. As demand

for forest products grow, private-land forests will increasingly be needed to supplement supplies, but trees suitable for harvest take decades to produce (versus the single year in which crops such as corn and soybeans can be harvested). In the absence of long-term and on-going research, such as provided through McIntire-Stennis, the Nation could easily become ill-suited to meet future forest-product needs. Replacement of McIntire-Stennis funding with competitive grants will leave long-term and stable forest research to chance. The Wildlife Society strongly believes that the reasons for continuing the McIntire-Stennis Cooperative Forestry program into the future are compelling and urges Congress to increase the fiscal year 2007 budget to \$25 million, an amount more consistent with historic levels.

National Research Initiative.—National Research Initiative Competitive Grants (NRI) are open to academic institutions, Federal agencies, and private organizations to fund research on improving agricultural practices, particularly production systems that are sustainable both environmentally and economically, and to develop methods for protecting natural resources and wildlife. Innovative grant programs such as NRI help broaden approaches to land management, such as integrating timber and wildlife management on private lands. The Wildlife Society supports the administration request of \$247 million for National Research Initiative Competitive Grants.

Thank you for considering the views of wildlife professionals. We look forward to working with you and your staff to ensure adequate funding for wildlife conservation.

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